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MARCH 1979

CAN CAPITALISM SURVIVE?

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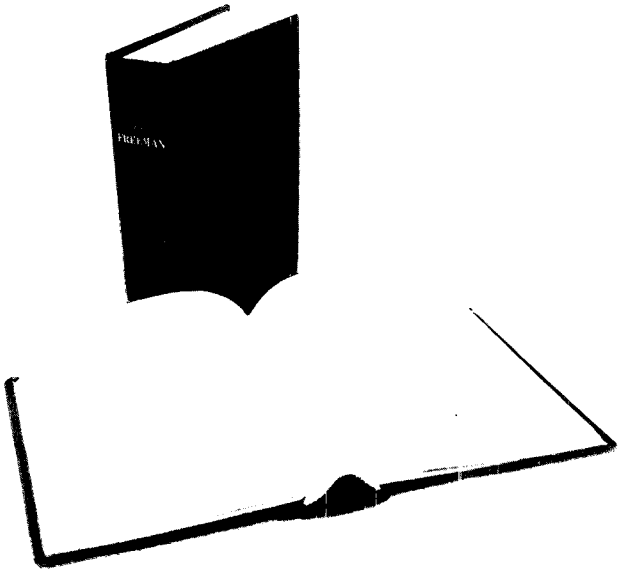

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VOL. 29, NO. 3 • MARCH 1979

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A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION
Irvington-on-Hudson, N.Y. 10533 Tel: (914) 591-7230
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THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

The costs of Foundation projects and services are met through donations. Total expenses average $18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of $5.00 a year.

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Additional copies, postpaid: 3 for $1.00; 10 or more, 25 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

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John Semmens

The Crisis in Public Finance: *No Ways or Means*

PUBLIC finance is beset with the dilemma of meeting two objectives that may not be attainable. On the one hand, there is the prescription that any public financing scheme must be fair. Though there may be considerable divergence of opinion on what this means, there is some consensus that it must be considered in any financing proposal. The second objective is that the plan must be feasible. Contemplation of feasibility can range from simplistic administrative or enforcement concerns to more remote indirect impacts on the economy.

The problems faced in public finance are significantly different from those confronting non-governmental organizations. Private enterprises must obtain their funds via the voluntary transactions of the marketplace. Consumers are not required to purchase, or pay for, goods and services they may not want. Such is not the case when the government is involved as a participant in the transaction.

Fairness in private finance is achieved by virtue of the fact that all transactions are voluntary. Any would-be participant serves as the sole arbiter of the fairness of any bargain he may choose to make. In the non-voluntary transactions involving the government, the government serves as the arbiter of the fairness. The conformity of actual transactions with the great differences in perception regarding fairness must, unavoidably, be worse when one must judge for all (as in

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government enterprise) than when each may judge for himself (as in private enterprise).

In private enterprise the decision as to feasibility is rendered simply and swiftly. The marketplace is a strict disciplinarian in such practical matters. Unfeasible ideas never get off the ground, or quickly crash if they do. The marketplace performs this function continuously. The private enterprise, relying upon investors and customers for its resources, obtains a steady flow of information regarding the feasibility of its actual or intended plans.

Public enterprise does not have access to the same convenient feedback from the marketplace. Government produced goods and services are not really marketed to consumers. Often the purchase decision is involuntary, at least from the perspective of the consumer. Instead, purchase behavior must be simulated, assumed, or arbitrarily determined by some government employee.

Under such a handicap, it is extremely difficult for public enterprise to evaluate the feasibility of any plan. Isolated from the necessary information to specifically identify those goods or services which can be feasibly supplied, government must rely upon more remote indicators of viability. In place of product sales or company profits as measures of feasibility, the public financier must grapple with political resistance to a proposed tax or analyze the more widespread economic impacts of the government's coercive intervention into a particular sphere of business activity. The severance of the transaction in which the service is provided from that in which the revenue is collected makes any such analysis that much harder.

Unfair Means

The issue of fairness in public finance revolves around the answer to the question: Who *should* pay for whatever service is contemplated? Three separate approaches have been traditionally brought to bear upon this issue. First, it is often asserted that those who benefit from a government service ought to pay for its provision. Second, it may be argued that the burden of payment ought to be related directly to the costs incurred to serve a particular user of the service. Finally, some maintain that payment should be based upon the ability to pay.

The first and second approaches generally lead to financing schemes based upon "users funds," such as the highway users fund. The attempt is to draw revenues from those who use and benefit from the service rendered.

The ability-to-pay approach abandons any attempt to link consumption with payment. Instead, it

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is asserted that services ought to be dispersed on the basis of need, while receipts ought to be drawn from individuals according to their ability to pay. Since the major forms of revenue generation—income, sales, and property taxes—employed by the government are already structured along ability-to-pay lines, reliance upon this approach suggests that government services be financed out of a "general fund."

Each of these three approaches to public finance presents some problems. From a practical standpoint there is an immense difficulty in ascertaining just how much benefit is involved in any one user's enjoyment of public services. Private enterprise cannot serve as a model here because private firms do not concern themselves with attempts to estimate the benefits enjoyed by specific customers. If enough customers perceive sufficient benefit in purchasing a firm's products or services for the firm to meet its profit goals, then the product or service will continue to be provided. "Enough" and "sufficient," imprecise as they are, can be tolerated in non-governmental enterprises because they are disciplined by external market forces. On the other hand, such imprecision presents the government with horrendous problems because its goals are essentially undisciplined by any outside market forces.

While there can be more precision in the determination of costs incurred to meet a general specification of services or products supplied, the allocation of these costs to individual users may prove troublesome. It is true, of course, that private enterprises are also faced with cost allocation problems. These are, however, primarily bookkeeping problems since the price of the service or product is determined by the marketplace. Knowledge or estimates of price and volume allow a private firm to work backward to determine how much cost can be covered by anticipated revenues.

Unfortunately, this process does not work in reverse. That is, knowledge of production costs will not tell us at what price and in what volume the final product will sell. All too often, public agencies become entrapped in a cycle of ever-increasing deficits by trying to price the services they provide on the basis of the costs incurred.

How Measure Demand?

Ability to pay is easier to measure than either benefit or cost. It is evidenced in tangible property or income and sales transactions. However, regardless of the ease of measurement here, we are completely severed from any information that would indicate the demand for the services to be provided.

As bad as pricing schemes based

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upon estimated benefits or costs are, a system in which there is no price is much worse. Consequently, determining the amount of resources to be expended for whatever level of service is an entirely artificial process. We can have no objective idea of what degree of effort is necessary. Instead, completely arbitrary decisions must be made. Of course, there will be no way to tell whether these decisions will even come close to meeting genuine needs. The prospects for a balance of supply and demand under these circumstances are rather remote.

Not only is the public enterprise isolated from information regarding price and quantity, but struggles with these problems may appear relatively simple in comparison with the need to determine the product mix that should be offered.

Typically, consumer needs, wants, and means are greatly diversified. The demand is for variety. Variety is what private enterprise must provide. The multiplicity of firms *facilitates* the fulfillment of these needs. The absence of the power to compel purchase *forces* private firms to cater to these needs.

In contrast, the government has the power to compel payment for such services or products it may choose to provide. This is not to say that the government will necessarily abuse this power by enforcing the consumption of frivolous or inappropriate services. However, it is inevitable that at least some people will be compelled to finance services which they deem frivolous or inappropriate.

A sincere desire to minimize the instances in which compulsory levies will be perceived to be expended in an unjustified fashion usually results in a policy of standardized service geared to meet the minimum requirements. Some critics have characterized this as a process of catering to the lowest common denominator. Deficient as such a process may be in terms of some notion of an "ideal" resolution of varied needs and wants, it is, nonetheless, the best alternative, given the constraints under which the public agency must operate.

Can Might Make Right?

Our examination of the conditions pertinent to public finance would seem to indicate that there is no way in which fairness can be assured. To the contrary, any public funding scheme is bound to be unfair. The involuntary nature of all transactions in which the government is a participant insures this.

Whether one takes an approach based upon the "users" theory and attempts to equate taxes with some element of service rendered, or whether one adopts the redistributionist logic of "ability to pay," the fact remains, some individuals will

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be made to pay for services they neither want nor even receive. Only governmental sovereignty prevents this *modus operandi* from being classified as criminal.

Fairness to the consumer is stymied in both key aspects of the product or service exchange. Whatever approach is used to determine price, he will have no option but to pay. Meanwhile, the quality and quantity in which the product or service is dished out will be decided by methods other than individual consumer choice.

Since attainment of universal fairness is not possible, the next best course open to the government is to minimize unfairness. This it has generally attempted to do in a number of ways. Almost without exception, the initial imposition of levies based upon ability to pay has started with low rates. Unfortunately, these have escalated to a point where the search for alternative revenue sources has become a widespread phenomenon at all levels of government.

The motivation behind the search for alternative revenue sources may stem from an uncertainty of conviction as to the justice of the "ability-to-pay" principle—that it must stop short of its logical conclusion to reduce everyone to an equality of wealth or income. Further taxes, it is felt, must be justified on some sort of "services rendered" basis. Despite the well-documented problems with both the benefits received and costs incurred approaches to public finance, there is a general consensus that reliance upon such methods is less unfair than any other option that includes continued government involvement in the provision of products or services.

Another motive inspiring the quest for new revenue sources is the belief that the supply of resources available under the ability-to-pay scheme may be "tapped-out." This "tapped-out" concept may relate to an estimate of the economic or the political infeasibility of heavier taxes for the general fund. The law of diminishing returns is a well-established principle. It is inescapable that, at some point, continued hikes in the burdens imposed on those able to pay will produce lower revenues. It is also inevitable that as increasingly larger numbers of people are discovered to be capable of paying larger and larger amounts, the balance of political power is bound to shift. Political resistance to public financing demands cannot help but increase, as the appetite for larger servings of public revenue can only be satisfied by placing more taxpayers on the menu.

Infeasible Ways

Since the payment of taxes is normally an involuntary activity,

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the pragmatic issue of public finance is essentially a question of "who can be made to pay" and "how much he can be made to pay." This issue can be considered from two angles.

First, there are certain economic considerations. Who has how much? What is the cost of taking various amounts from him? What are the economic consequences of various levels of taxation?

Second, there are several political considerations. What is the capacity of the targeted taxpayers to resist the government's taxes? Are the targets ignorant and powerless? Or are they well informed and powerful? The answer to these questions will determine the extent to which the identity of who will be taxed will have to be disguised.

To date, the government has not made much progress in dealing with the economic implications of public financing activities. "Who has how much?" has been given devoted attention. The records of incomes, sales, and property are voluminous. The government effort in this area has been substantial. The cost of enforcing the taxes has been given some attention, but the effort has been inconsistent and marked by a measure of indifference. The economic consequences of various levels of taxation have been largely ignored. As a result, total public revenues are increasing, but not as fast as the costs of collecting them. Meanwhile the impact of taxation on the economic health of the society is subject to a great deal of speculation, most of it suspecting the worst.

It has long been acknowledged that, at some point, the total burden of taxation would become "excessive." Objectively, this means that the next hike in the rate of the tax would actually produce lower public revenues. There has been no actual proof of what rate turns the tide. Therefore, a prudent course might restrict the government's taxation activities to the absolute minimum. Instead, government actions have continually increased taxes.

Whether the government's toll of the productive output has reached or passed the point of diminishing returns is a matter of serious concern. Recent public discussion of this problem and the fairly substantial argument over whether a cut in tax rates would increase government revenues, would seem to indicate, in an informal way, that we may be at or near a point of diminishing returns. At the very least, it is established that a substantial number of people are convinced that such a point has been passed.

The Burden of Taxes

Every governmental ways and means proposal, then, is, of necessity, confronted with the question of its additional impact on the total tax

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burden. The fact that a particular tax proposal may be linked with a specific use for the funds generated does not insulate it from this total tax burden problem. Government imposed "users fees" are not market exchanges. The further removed these fees are from market exchanges, the greater the impact on the total tax burden.

The total burden, however, is not the only economic consequence of concern in public finance. The specific effects of each tax pose another problem. Tax rates or so-called users fees are not market prices. If the government's charge is less than the market price would have been, huge economic distortions may result. Demand for the underpriced product or service will be excessive. Demand for competing products will be suppressed. Greater supplies of ingredients to the underpriced item will be required. Each of these direct consequences will cause subsequent indirect consequences, creating a ripple effect of distortion throughout the economy. If the government's charge is more than the market price would have been, different, but equally serious, economic distortions would follow.

These distortions can lead to misallocation of resources and inefficiency. In effect, government taxes pollute the price system. The role of prices as feedback to the productive entities in the economy is thereby subverted. Wrong signals are given. Shortages and surpluses result. Resources are wasted. The rate of return on investment is reduced. Economic progress for all social groups is retarded.

This list of evil consequences may seem rather drastic. After all, how much devastation can be wrought by a few erroneous price signals? The degree of integration and sophistication that accompanies the advanced specialization of our high technology economy insures that the effects of even relatively minor transactions will spread throughout the economic system. Add to this the sensitivity of the price system as a continuous measurement device of the diverse wants, needs, hopes, ambitions, fears, greed, and other motivations of humanity, and you have a lever that can move the world.

Political Considerations

In contrast to the lack of attention given to the economic consequences of various public financing schemes, the political considerations of taxation have been handled with both dispatch and imagination. The growing proportion of total production being consumed by the government is evidence of the effort devoted to solving the political problems. Corporate America has been conscripted as the chief tax collector for both income and sales taxes, while the banking industry has been

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drafted to play a major role in collecting the property taxes on mortgaged real estate.

The capacity for tax resistance has been minimized by skillful placement of the collection point. The bulk of personal income taxes are *withheld*. Purchase transactions cannot be completed without payment of the sales tax. Property taxes are normally included in monthly mortgage payments. In most jurisdictions, seizure and sale of property for nonpayment of taxes is a simple and expeditious process.

While the historical record gives us every reason to assume that the government would be able to overcome the political resistance to increased taxation, there are several conflicting forces. On the one hand, most of the easy sources of funding have already been exercised, perhaps to exhaustion. On the other hand, the knowledge and will to resist further burdens seems to be on the rise.

The root of the public financing problem is that man-made law cannot abolish natural law. Enactment of government taxes can affect the distribution of economic goods, but legislative fiat cannot create economic goods. Instead, taxation unavoidably lowers the return on productive activity. Disregarding any disincentive effect, the reduction in the return, when compounded over time, must reduce the total pool of available resources *because a substantial potential quantity will never be created*. Resources which are not created cannot be diverted to government use. Even the most advanced political skills cannot alter this reality.

The Public Interest in Private Enterprise

Our examination of the dilemma of public finance would seem to indicate that in terms of equity, taxation is fundamentally unfair. The public enterprise is unable to determine what demand is, much less serve it. No bona fide exchange takes place. Individuals do not get what they pay for in any reasonable sense of the word. There is, in short, no defensible standard that is consistently employed in taxation other than convenience for the government.

Even convenience is unsustainable in the long run. The defenseless and the subservient have already been taxed, probably close to their capacity to pay. The strain on the economy's limited resources has become apparent. There is the very real possibility that any further attempt to raise revenues by increasing the tax rates will be counterproductive. Public enterprise has always been less feasible than private enterprise. The government must now face the prospect that this relative lack of feasibility is being replaced by an absolute infeasibil-

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ity, particularly with regard to the potential for additional revenue generation.

So, if public finance is both unfair and infeasible, what are the public policy implications? Expansion of the government's role must be ruled out. Replacement of public by private enterprise seems warranted.

The specific means for achieving the privatization of public enterprise must follow in the wake of a more widely spread recognition that such a step would be beneficial. The future viability of our economic system may well depend upon the speed with which such recognition takes place.

Another Anti-Inflation Circus

Hans F. Sennholz

EVERY U.S. President from the time of Franklin D. Roosevelt has been an "inflation fighter." Some denounced inflation as "public enemy number one," others even declared war on inflation.

And yet, since the first declaration of war by FDR, the American dollar has lost 80 per cent of its purchasing power and is losing more every day. Inflation is winning all the battles.

For almost 50 years of the anti-inflation war the U.S. government has pointed at several culpable parties. American business, especially big business, has taken the brunt of the blame. One President even used four-letter words to describe the greed of businessmen who raise prices. Some have taken potshots at physicians, attorneys, and other professionals, or pointed at labor unions. All presidents like to flail at speculators who hedge against the

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U.S. dollar by buying gold and harder currencies. And all have damned foreign governments for ruining the dollar.

Recent proposals in the battle against inflation call for restrictions on the production and consumption of energy and programs to spur U.S. exports, limit imports, sell additional amounts of gold, and encourage West Germany and Japan to buy more from the U.S.

If it were not for the ominous effects of inflation on our lives and our society, the anti-inflation war would be a proper subject for the circus. The clown pompously announces he will demonstrate his skill, but lo and behold, always accomplishes the very opposite. The President formally announces another anti-inflation program, but lo and behold, the inflation gets worse.

The clown's method of fun is deliberate. He labors to violate a simple natural law. For instance, he seeks to defy the law of gravity by valiantly supporting an object that wants to fall down. He generates laughter, because young children know the futility of his efforts.

For economists familiar with economic laws, the Presidential anti-inflation programs are equally hilarious because they aim to violate inexorable economic laws. Like the Danish King Canute who ordered the rising tide to come no further, the President of the United States is commanding economic laws to yield.

For example, all governmental efforts to restrict imports and promote exports tend to reduce the supply of available goods. Every freshman economist who is familiar with the law of supply and demand, knows that this policy must raise goods prices and thus depreciate the currency.

The administration proposes a Congressional energy package to reduce the importation of foreign oil and gas "in order to bolster the dollar." But such a reduction will cause energy prices to rise and the U.S. dollar to depreciate. The world seems to know this, as it continues to dump U.S. dollars on the world money markets. Every time the President speaks of energy and his programs, the dollar falls to a new low.

Like the Danish King Canute who ordered the rising tide to come no further, the President of the United States is commanding economic laws to yield.

The U.S. government is selling gold to strengthen the dollar. It offers foreign bankers and governments the opportunity to exchange dollars for gold, which strengthens the international role of gold and

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weakens that of the dollar. The dollar price of gold may temporarily fall one dollar or two, but the world-wide distribution of gold tends to bolster its importance.

The President lashes out at individuals—especially at foreigners or those Americans who are not expected to vote for his re-election—for causing the inflation through greed. He becomes a judge, and draws applause from those always ready to think evil of their fellowmen. An economist watching this is reminded of the scriptural question, "Why beholdest thou the mote that is in thy brother's eye but considerest not the beam that is in thy own eye?" He may also remember the circus scene in which a clown turns on the water sprinkler, thoroughly soaking another clown, and then, with great indignation, assails him for being so wet.

Economists frequently wonder about the mentality of politicians. Does the President really believe that God invested him or his administration with special powers? Does popular acclaim and high office mislead him to believe in such powers? Or is he aware of his limitations, but merely acting the role of an omnipotent leader because the people would like him to be omnipotent? Is the economic ignorance really his own or merely a reflection of the ignorance of the electorate? Does a legislator actually believe that he and his colleagues, in Congress assembled and by majority vote, can negate economic law? For that matter, did King Canute's entourage, which shouted the King's order in unison, really believe that the rising tide would come no further?

Does a legislator actually believe that he and his colleagues, in Congress assembled and by majority vote, can negate economic law?

Ours is an age of inflation because most people believe in the desirability of more money and credit, which is the very essence of inflation. Motivated by this belief, they bestowed the monopolistic right to issue money on their government and urged it to be free and easy with the issue. Governments greatly enjoy the use of this power because it affords an important source of revenue. Weak administrations, especially, readily yield to the temptation and create massive quantities of money in order to finance their spending programs. Billion dollar expenditures may generate millions of votes.

Issuing new money inescapably produces undesirable effects. Prices rise as recipients of the new money buy more goods and services. Each unit of money depreciates as more units are emitted. People on fixed

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incomes and savers see their purchasing power reduced, so they complain about the inflation. The government that is busily emitting massive quantities of new money rushes to the rescue: "By order of the President, the Congress, the courts and the police, all prices stop!" The order is given to millions of individuals exchanging goods and services in countless voluntary transactions.

As long as the order agrees with the value judgments of the trading parties, they will continue to exchange as before. But if the order should differ from their judgments, they will react. The seller who is ordered to exchange at a stop price that is lower than his own value judgment, ceases to exchange. In his judgment he would suffer a loss which he can avoid through inaction. The physician whose fee is officially fixed below the rate that causes him to render his service, will reduce his efforts. Thus, shortages inevitably result wherever government fixes prices below those people would set in free exchanges.

At first, the U.S. government resorts to inflation in order to cover its deficits. When rising prices subsequently hurt millions of people and cause them to voice their frustrations, the very administration that indulges in the spending spree is quick to point its finger of blame at some innocent bystander. It may impose wage and price controls, which control people and cause their productive efforts to decline. Lower output in turn causes the value of goods and services to rise and that of money to fall.

The U.S. government alone is conducting the inflation and making it worse with "anti-inflation programs." An administration that really disapproved of inflation would just stop inflating the currency.

IDEAS ON LIBERTY

Inflation Produces Chaos

WHEN the government has the power of dipping into public funds for distribution to various groups under the welfare state theory of government, the pressure put upon it by the people cannot be resisted. Inevitably, it spends more than its income and not only taxes the people to the point of strangling business but creates enormous deficits in addition. Inflation then produces the chaos which makes necessary the suspension of free government and the institution of dictatorship.

HOWARD E. KERSHNER

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World in the Grip of an Idea

Clarence B. Carson

27. The Cold War: Foreign Aid

The United States became the center from which the idea that has the world in its grip, in its evolutionary socialist, gradualist, or democratic socialist formulations, was spread after World War II. The main device for spreading the collectivist practices associated with the idea was foreign aid. Foreign aid was extended by way of grants and loans from the United States government to governments of other lands around the world. It consisted mainly of military aid, commodities and other economic aid, and technical assistance.

Those who devised, promoted, voted for, and carried out foreign aid activities for the United States did not avow the aim of spreading socialism. On the contrary, it was promoted primarily as a means of containing communism and secondarily as a means of establishing stability and peace by promoting security and prosperity. Moreover, there was much talk of advancing and supporting individual liberty and free enterprise around the world. For example, the "Benton amendment" to the Mutual Security

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In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

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Act of 1951 contained these admonitions:

> It is hereby declared to be the policy of the Congress that this Act shall be administered in such a way as (1) to eliminate the barriers to, and provide the incentives for, a steadily increased participation of free private enterprise in developing the resources of foreign countries consistent with the policies of this Act, (2) to the extent that it is feasible and does not interfere with the achievement of the purposes set forth in this Act, to discourage cartel and monopolistic business practices prevailing in certain countries receiving aid under this Act which result in restricting production and increasing prices, and to encourage where suitable competition and productivity. . . .[1]

While this was less than a clarion call for free enterprise, it did state that as a part of the aim. That the aim was to defend and establish freedom was stated often and in a variety of ways. Secretary of State George C. Marshall, who articulated the Marshall Plan of foreign aid for Europe, declared before the Senate Committee on Foreign Relations that its high purpose was "the establishment of enduring peace and the maintenance of true freedom for the individual."[2] The Economic Cooperation Act of 1948, which was passed by Congress to put the Marshall Plan in effect, included these assertions of purpose:

> . . . The restoration or maintenance in European countries of principles of individual liberty, free institutions, and genuine independence rests largely upon the establishment of sound economic conditions, stable international economic relationships, and the achievement by the countries of Europe of a healthy economy independent of extra-ordinary outside assistance. The accomplishment of these objectives calls for a plan of European recovery . . . based upon a strong production effort, the expansion of foreign trade, the creation and maintenance of internal financial stability, and the development of economic cooperation, including all steps possible to establish and maintain equitable rates of exchange and to bring about the progressive elimination of trade barriers.[3]

At their inception, and for several years thereafter, these programs had widespread bipartisan support in the United States. One historian suggests that this was achieved by the appeal to a broad spectrum of ideas and beliefs:

> The relative ease with which Truman got the substance of this European Recovery Program (E.R.P.) through an economy-minded Republican Congress can be easily explained. The administration had done unusually careful and thorough spadework. Sensing the conservative temper of the country, it made business leaders partners in the venture. The success of E.R.P. in Congress was assured when the three most powerful national pressure groups were persuaded that their constituents, as well as the United States, stood to gain from the proposal. The business group (repre-

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sented by the National Association of Manufacturers) hesitated to bolster the socialist economies among the sixteen nations. The N.A.M. realized, however, that European recovery would foster American foreign trade and might possibly uproot the seed beds of Communism in France and Italy. Moreover, Truman's liaison officers promised that E.R.P. would be run according to "sound business principles," and that it would help counteract the trend toward socialism. . . . E.R.P. was headed by the president of the Studebaker Corporation, Paul G. Hoffman, who pleased the industrial bigwigs by advertising abroad the merits of the American system of free enterprise.

The all-important agricultural associations were also enthused by the prospect of increased foreign outlets for farm products, as were the A.F.L. and C.I.O. . . . The support of the country's most influential lobbies was secured before Congress began its debates.[4]

Biased toward Collectivism

Whatever the aims and intents of those who supported these programs, however, the thrust of them was collectivist. The desire to forestall the spread of communism was probably quite sincere, so far as it went. The desire to contribute to European recovery and, more broadly, to the stabilization of countries in various parts of the world may have been equally sincere. There is evidence, too, that some of the initial animus, at least, of American involvement was directed toward the freeing of trade and enterprise. The best examples of this were in West Germany and in Japan where Americans were most deeply involved. The shadow of Woodrow Wilson still hung over America at the end of World War II, a shadow cast by Wilson's peculiar combination of nineteenth century liberalism, with its emphasis upon free trade and open markets, with twentieth century liberalism, with its collectivist bias.

But a fuller explanation of a collectivist thrust behind a facade of promoting individual liberty and free enterprise requires that we call to mind how gradualism works. Gradualism proceeds by advancing programs which have their meaning within socialism but are advanced only to deal with particular exigent situations. In England, this approach is known as Fabianism. The gradualist, too, utilizes, so far as possible, familiar ideas and works within the framework of established institutions, even when he aims at their eventual overturn. Gradualism proceeds by altering the content of ideas and the character of institutions. The collectivist premises are often kept out of sight but are made to inform such acceptable ideas as international cooperation, mutual security, and multilateral agreements. Familiar terms are subtly informed by collectivist premises.

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A Confusing Reciprocity

How this works may be made clearer by examples. New Dealers worked to lower tariffs in the 1930s by what were called "reciprocal trade agreements." The lowering of tariffs had been correctly identified with the movement toward free trade. But reciprocity brought a new ingredient to the undertaking, and one which, on closer examination, is quite confusing. "Reciprocal" implies that a *quid pro quo* has been given. But in a reciprocal trade agreement who gives the "*quid*," and who gets the "*quo*"? It is not at all clear when looked at as a matter of economy.

The problem arises because neither nation benefits from a protective tariff. Revenue aside, the peoples of both countries are harmed. So far as the protective tariff succeeds in its object, they are denied goods they might have had at more favorable prices than they can obtain. It is even questionable whether in the long run those interests that are supposed to benefit from the protection, industrial workers, for example, even benefit. But whether they do or not, it has been demonstrated conclusively, and many times, that the general populace of a country does not gain from the protective tariff. That being the case, and assuming that government is supposed to be the agent of the populace, no reciprocal agreement to lower tariffs is necessary, and none is possible in a meaningful sense. In short, the people of the country in which the tariff is lowered are the most direct beneficiaries of the action. It is in their interest for the tariff to be lowered, whether the tariff of any other country is lowered or not. In a similar fashion, it is in the interest of other countries to lower their tariffs.

Justified by Socialist Theory

Reciprocal trade agreements do not make sense within the theory and framework of a free market. They are a collectivist device. Socialist theory justifies them, and they are in accord with the idea that has the world in its grip. We can understand both reciprocal trade agreements and foreign aid within the framework of that idea. At the heart of the idea is the notion of getting rid of the pursuit of self-interest. According to mercantile interventionist theory, the protective tariff benefited the country which imposed it by helping to establish a favorable balance of trade. Therefore, according to this theory, the national interest was advanced by the protective tariff. By a reciprocal trade agreement, then, two or more nations would mutually agree to sacrifice their national interests for their common welfare and benefit. It was equally important, too, that governments act in concert

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with one another in the movement toward collectivism.

Socialism provided the framework for the foreign aid idea. By foreign aid, a nation sacrifices its interest for the common welfare of all the nations involved. Although there is an egalitarian animus behind foreign aid, it is quite possible that the most important push was to get nations to act in concert for their supposed common good.

Socialism is nationalistic. Virtually every species of socialism is national socialism. The late Ludwig von Mises explained the reason for it in this way:

> Interventionism aims at state control of market conditions. As the sovereignty of the national state is limited to the territory subject to its supremacy and has no jurisdiction outside its boundaries, it considers all kinds of international economic relations as serious obstacles to its policy. The ultimate goal of its foreign trade policy is economic self-sufficiency. . . .
>
> The striving after economic self-sufficiency is even more violent in the case of socialist governments. In a socialist community production for domestic consumption is no longer directed by the tastes and wishes of the consumers. The central board of production management provides for the domestic consumer according to its own ideas of what serves him best. . . . But it is different with production for export. . . . The socialist government is sovereign in purveying to the domestic consumers, but in its foreign-trade relations it encounters the sovereignty of the foreign consumer. On foreign markets it has to compete with other producers. . . .[5]

In short, in order to control the domestic economy, and have it subject to no outside influences, socialism tends to try to have a self-contained economy.

Destroying the Market

The market is anathema to socialism or to the idea that has the world in its grip. Socialists inveigh against capitalism and capitalists. But they are not the true enemy. Capitalists can be, and regularly are, bought; they can be controlled, manipulated, even used as instruments of government. They are paper tigers, easy to abuse in slogans but hardly formidable opponents of socialism generally.

The free market is another matter. It epitomizes what must be crushed if the idea is to triumph. In the free market, the pursuit of self-interest reigns supreme. There, the sellers display their wares as attractively as possible, hoping to get the best price possible for them. There buyers are dominated by one thought: to get the best merchandise for the lowest price. The market must be abolished. Or, it must be altered so drastically that self-interest no longer holds sway.

The massive revolutionary thrust in this century has been aimed at somehow abolishing or decisively al-

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tering the character of the market. Entailed in this effort is the determined and tenacious attempt to transform man and society, for men make markets, and the market is a salient feature of society.

In theory, nothing should be easier than to abolish the market. All that is necessary is to abolish *all* private property. Then, since men will lack all means with which to trade, all trade will cease, all legal trade anyway. Any government that would go so far, however, would almost certainly be committing suicide. By abolishing private property and the market, it would not only remove the positive means that induce men to produce but a goodly portion of the negative, i.e., fear of punishment, ones as well. The most common and widely used means by which governments punish malefactors in our day is imprisonment. But imprisonment would involve no significant change in status for a people who could have no private property or engage in trade.

As If in Prison

The parallel between the socialist premises and imprisonment is striking. The main impact of imprisonment is felt in the virtual abolition of private property and the drastic restriction of the market. The aim of imprisonment is presumably to punish by detention. But the effect would be the same if the aim were to abolish the market. It is true that socialism has never threatened to cut off all nonpecuniary exchanges, but to the extent that it limits the market, it reduces the opportunity for these as well.

Even totalitarian socialist regimes have stopped short of abolishing all private property in their assault on the market, however. Indeed, it is probably beyond the power of government to extinguish all private property. Property is antecedent to government, having a factual basis in production and possession. The nearest thing we know to the abolition of private property occurred in the Nazi concentration camps and the Soviet labor camps, but even there men clung to the residues of possessions as property.

Be that as it may, socialists—that is, all those under the sway of the idea that has the world in its grip—everywhere carry on a virtually unremitting effort to limit, restrain, and control the market. Every effort to do so, however, tends to isolate each socialist state from every other nation. Efforts to control the money supply hamper foreign exchange. Efforts to control wages, usually to raise them, make trade with other nations difficult. In short, socialist experiments tend to cut nations off from one another and to pit them against one another. This was dramatically demonstrated by the Iron

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Curtain around the Soviet Union and the Bamboo Curtain around China. The isolation of gradualist nations is not so dramatic, but the tendency is at work there as well.

Barriers to Trade

The problem can be phrased this way: How can a nation's economy be managed when the economy is subject to the world market? The answer, of course, is that it cannot be. In their efforts to manage economies between World War I and World War II, nations almost everywhere erected barriers against world trade. This national socialism followed its logical course most fully in Nazi Germany and Fascist Italy. It followed an equally logical course as imperial socialism in the Soviet Union, although there it did not reach fruition until 1948, when all of eastern Europe had fallen under Soviet domination.

To the extent that a country is cut off from the world market it loses the advantages of international division of labor and specialization. It is cut off from many of the best sources of materials and better markets for its products. The most logical course then becomes to expand the area over which it has control. Indeed, the logic is world conquest.

After World War II national socialism was in disrepute. That does not mean that it has not been practiced—Red China being the most horrendous example—but that it was not avowed as a purpose. Two varieties of international socialism emerged as dominant. One of these is international communism which, after the war, was centered in Moscow. The other, unnamed but nonetheless present as impetus, is international democratic socialism or gradualism. Its center was in Washington. The contest between them was the Cold War.

The Soviet Union sought to remove its isolation by expanding the communist system. (It could be argued that this represented no change in Soviet policy, since it had been trying to do so since 1918. Perhaps, though, there was a shift toward the emphasis of fostering communism instead of simply extending Soviet power.)

The Role Played by the U.S.

The precise role of the United States in these developments needs a little further explanation before it becomes clear. Neither the United States nor other nations were opposed to foreign trade as such. The opposition of socialists is to the market, not to trade. To put it another way, if trade could be conducted as a part of the managed economy, could be collectivized, and carried on so as advance democratic socialism it would be entirely acceptable. In short, if trade could come

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under the auspices of government instead of being carried on between peoples in the market it would lose its onerous character.

It is quite possible that no one conceived the matter in just this way, and it is certain that those who advanced the American programs did not publicly state the case for them in this fashion. In any case, socialists have not been inclined to acknowledge that barriers to trade arise from socialist practice, if they were aware of it. (Quite often, they don't even admit they are socialists, especially in the United States.) So far as Nazi Germany and Fascist Italy were concerned, those were "right wing" movements, according to other socialists. Of course, it is no secret that countries following collectivist practices have difficulties in foreign trade. But they are not ascribed to socialism. They are ascribed to dollar shortages (American printing presses have finally eased or removed that one!), to trade imbalances, to the devastation of wars, to cold winters, to droughts, to industrial backwardness or underdevelopment, to colonial exploitation, or to a hundred and one other conditions.

Even so, the problem was there, and it was real, whether it could be openly faced or not. Namely, how could socialism be an international movement? How could nations open up to one another in mutual benefit rather than each be cut off from the other in isolation and mutual antagonism? How could Soviet socialism be undercut, contained, and perhaps tamed by gradualist socialism? Although there is no reason to suppose that American intellectuals were wrestling with these problems formulated in this way just after World War II, they were wrestling with problems stemming from them.

The Marshall Plan

An American plan for dealing with these problems began to emerge in 1947. There had been an earlier American plan—the United Nations—but it was thwarted by Soviet obduracy plus a lack of determination from other nations. It was first expressed in the Truman Doctrine in connection with aid to Greece and Turkey. President Truman said, in part:

> The seeds of totalitarian regimes are nurtured by misery and want. They spread and grow in the evil soil of poverty and strife. They reach their full growth when the hope of people for a better life has died. We must keep that hope alive.
>
> The free peoples of the world look to us for support in maintaining their freedoms. If we falter in our leadership, we may endanger the peace of the world—and we shall surely endanger the welfare of our own nation.[6]

It was, however, Secretary of State George C. Marshall who gave

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much more definitive form to the plan. In a speech at Harvard University, delivered on June 5, 1947, he set forth some ideas which were quickly dubbed "The Marshall Plan," and became the foundations of an American plan. Two key points emerge from the address. The first is his statement of the purpose: "Our policy is directed not against any country or doctrine but against hunger, poverty, desperation, and chaos. Its purpose should be the revival of a working economy in the world. . . ."[7] The other was the method. Secretary Marshall took care to emphasize that the initiative in devising the particulars of the plan must come from European nations. "It would be neither fitting nor efficacious," he said, "for this Government to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of the Europeans. The initiative, I think, must come from Europe. The role of this country should consist of friendly aid in the drafting of a European program and of later support of such a program so far as it may be practical for us to do so. The program should be a joint one, agreed to by a number, if not all, European nations."[8]

If Marshall's program was anti-communist, it was surreptitiously so. Communist countries were invited to the initial conference, and one accepted. The Soviet Union intervened, and none of the countries in the Soviet orbit participated.

When the Marshall Plan was put into effect heavy emphasis was placed upon the "joint effort" and "economic cooperation." Truman described the plan this way: "This was our proposal, that the countries of Europe agree on a cooperative plan in order to utilize the full productive resources of the continent, supported by whatever material assistance we could render to make the plan successful."[9] The participating countries made a formal pledge "to organize together the means by which common resources can be developed in partnership. . . ."[10] The thrust of the programs as activated was to promote economic union of European countries."[11] The main outcome was the Common Market.

Massive Redistribution

The Marshall Plan was a major breakthrough for gradualist socialism. Theretofore, the interventionist measures associated with gradualism had tended to raise barriers between nations. The Marshall Plan attempted to lower the barriers within a region of the world while promoting collectivism on a broader scale. The Marshall Plan was socialistic, in the first place, because it entailed American aid to European countries. Tens of billions of the wealth of Americans was trans-

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ferred to Europe, a clear cut case of redistribution of wealth. More, the program promoted collective action by several participating countries. Moreover, it enabled countries to continue their domestic socialist programs by negotiating arrangements with other countries that would leave them undisturbed.

The question of whether or not the United States should promote free enterprise by the European Recovery Program was resolved in this way by a committee:

> Aid from this country should not be conditioned on the methods used to reach these goals, so long as they are consistent with basic democratic principles. . . . While this committee firmly believes that the American system of free enterprise is the best method of obtaining high productivity, it does not believe that any foreign-aid program should be used as a means of requiring other countries to adopt it.[12]

It would have been surprising if the committee had determined otherwise, since the United States was extending aid to the Labour government in England which was busily nationalizing industries before the Marshall Plan got underway.

Extending the Vision

Despite its extensive scope, the Marshall Plan was a limited program, limited to Europe and to a few years to help these countries recover from the ravages of war. However, President Truman was not long in extending a vision of American help to the whole world. Following his re-election in 1948 he announced what he called the Point Four Program. He explained the program this way:

> Point Four was aimed at enabling millions of people in underdeveloped areas to raise themselves from the level of colonialism to self-support and ultimate prosperity. All of the reports which I had received from such areas of the world indicated that a great many people were still living in an age almost a thousand years behind the times. In many places this was the result of long exploitation for the benefit of foreign countries. . . . This was the curse of colonialism. . . .
>
> In this country we had both the capital and the technical "know-how". I did not see how we could follow any other course but to put these two great assets to work in the underdeveloped areas in order to help them elevate their own standards of living and thus move in the direction of world-wide prosperity and peace. . . .[13]

The following are examples, cited by Truman, of programs undertaken under the auspices of Point Four:

> A monetary, fiscal, and banking system was introduced in Saudi Arabia. Schools of medicine, public health, and nursing were set up in several countries. A 75,000-acre irrigation project in the Artibonite Valley of Haiti got under way. A great multi-purpose hydroelectric plant was constructed in the Mexican state of Michoacán. Irrigation projects in Jordan were started to create 120,000 acres of arable land providing

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homes and six-and-a-quarter-acre tracts for 21,000 families consisting of 105,000 individuals.[14]

Economic and Military Aid

Very soon after its inception, indeed, in some places from the beginning, foreign aid was of two kinds: economic aid and military aid. The whole became a vast effort to arm and assist in feeding peoples around the world. Within a decade after World War II, American influence was extended to virtually the whole of the non-communist world. A political scientist imaginatively described the American "presence" this way:

> The extent and depth of American commitments in the postwar world were staggering. In the decade after the war Americans took the lead in the United Nations and American soil became the site of the world's "capital." Americans ruled alien peoples in Germany, Austria, Italy, Trieste, Japan, and Korea; and American generals, like Roman generals of old, became world famous as proconsuls. Peacetime "entangling alliances" were made with Europeans, with Asiatics, and with countries as far away as Australia and New Zealand. American spheres of influence arose in Greece, Turkey, and Saudi Arabia, and extended in circular half-moon fashion through the Japanese islands, the Ryukus, Formosa, the Philippines, the Carolines, and the Marshalls. The internal politics not only of Latin American countries but also of European, African, and Asiatic countries turned on American policy.

The following are net figures for foreign aid from the United States for the years 1945-1965. The total for economic and military aid was slightly over 100 billion dollars. Economic aid to western Europe amounted to $23.8 billion; military aid to $16.2 billion. To the Near East and south Asia, $15.4 billion in economic aid; $6 billion in military aid. To the Far East and Pacific, $14.5 billion in economic aid; $12 billion in military aid. In the Western Hemisphere, $5.6 billion in economic aid; $1 billion in military aid.[15]

"Democracy" as a Code Word

Our concern here is primarily with how this expansion of wealth and influence contributed to the spread of gradualism. The ostensible purpose of the aid was to spread and buttress democracy and build the sort of regimes that would resist communism. "Democracy," as earlier noted, was a code word for democratic socialism, at least as used by many intellectuals. In practice, this meant that where American aid went the prevalent American notions of the role of government went also. Here is an example of the development of an argument for this in an Economic Cooperation Administration report to Congress:

> No modern self-governing state—and especially no state with a democratic form of government—can maintain itself

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and develop its potential unless it performs a minimum of public services in the fields of health, agriculture, education, transport, power and communications, industry and overall planning. The countries of southeast Asia . . . are acutely deficient in these public services. . . . The initial step in any program . . . must therefore be the organization and maintenance of adequate, self-sustaining public services.[16]

Another report was even blunter, declaring that we must assist in the "creation of social and economic conditions and institutions under which the people feel that their basic needs and aspirations are being satisfied by their own free and independent governments."[17] In short, the foreign aid programs aimed to strengthen governments by helping them to provide for the needs of their citizens.

Building a Base for Socialism

In the broadest sense, what animated the foreign aid programs can be described as follows. The most basic appeal of socialism is the promise of redistributing the wealth. However, industrially undeveloped countries had very little wealth either to distribute or redistribute. (The same had been true, to a much lesser extent, of war-ravaged countries.) Nor did they have modern weaponry with which to consolidate their own power over the populace or to defend themselves from foreign invaders. The United States intervened by providing wealth, or a modicum of it, for governments in these countries to distribute, and weaponry to build up military establishments.

The aim was not to make these countries permanently dependent on largess from the United States. Direct aid in goods and materials was supposed to be a stop-gap measure. The aim was to develop these countries so that they would no longer require such aid. This was affirmed over and over again in public statements, and there is little reason to doubt the sincerity of such intentions. One may surmise that if a country could learn the techniques and develop industries they could then engage in their own redistribution programs.

But if each country in the world became self-sufficient, the world would presumably be caught up in the inner contradictions of socialism, namely, each country isolated from every other. There is, of course, no danger that countries will become self-sufficient. The tacit premise of socialism is that all the goods will be more or less equally available to all the peoples of the world. That is hardly a project that could be accomplished once and for all, if it could ever even be momentarily accomplished. Droughts, floods, hurricanes, tornadoes, discoveries of rich mineral deposits, in-

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A Mistaken Idea

THERE could hardly be a more perverse and mistaken idea than the idea that you can fight communism with socialism. So-called "gradual" socialism is at best a halfway step toward communism. The economic ideals of socialism and communism are identical. Both believe in government ownership and operation of the means of production. Once this ownership and operation become sufficiently extensive, the government has economic life-and-death powers over the individual. It can say where he must take his job, what job he must take, or whether he can take a job at all. And once the government has this power, the liberty of the individual has in fact, if not in form, disappeared. As Alexander Hamilton pointed out in the Federalist Papers a century and a half ago, "a power over a man's subsistence amounts to a power over his will." . . .

Under capitalism, in addition to the possibility of going into business for oneself, there are in the United States several million employers competing against each other for labor. Their competition not only raises the wages but protects the liberties of the worker. His situation becomes incomparably worse when he must bow to the will and terms of a single employer, the State. The history of the spread of socialism is in fact a history of the disappearance of peace, representative institutions, limited government, and personal liberty.

HENRY HAZLITT, *Will Dollars Save the World?* (1947)

ventions, and what have you, would be continually unbalancing the division.

A Brotherhood of Nations

The foggy dream which impels gradualists is not of some final resolution in which socialism will have been achieved but of an enduring effort to shift the world goods where they are wanted. They will have the mechanism for the activity when some international body has been empowered to take from the haves and provide for the have-nots everywhere in the world. Pending that, the task is for wealthy and "enlightened" nations to provide for those who have less. A kind of brotherhood of all nations is supposed to emerge from all this, nations which no longer advance the self-interest of their own people but are exclusively concerned with the well-being of all mankind.

In the real world that did not come

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to pass. As soon as the Arabs had the technology for producing oil within their bounds they took it over and jacked up the price of oil. They utilized their regional association to form a giant oil cartel. Military aid has all too often turned into military rule within countries. American aid was often a handy device for keeping a particular party in power. But, above all, the amount of foreign aid never kept up with the dreams and expectations of the people to whom it was extended. Underdeveloped countries remained underdeveloped countries for the most part, their foreign aid spent for showy demonstration. True, the foreign aid programs spread the virus of socialism. They helped to fasten on most of the peoples of the world the notion that they should look to their governments to take care of them. But it was never enough—it could not be—to produce what it promised.

In consequence, by the 1960s many countries were leaving the American orbit. For the most part, they were not going into the Soviet orbit, not headlong anyway. They declared themselves unwilling to be participants in the Cold War, and many of them were clearly not sold on the superiority of gradualism. That was for Western nations who had already developed their technology. They would have to find another way. It is time now to discuss the development of this Third World.

Next: *28: The Cold War: The Third World.*

—FOOTNOTES—

[1]Harry B. Price, *The Marshall Plan and Its Meaning* (Ithaca, N.Y.: Cornell University Press, 1955), p. 172.

[2]Robin W. Winks, ed., *The Marshall Plan and the American Economy* (New York: Henry Holt and Co., 1960), p. 15.

[3]*Ibid.*, p. 25.

[4]Selig Adler, *The Isolationist Impulse* (New York: The Free Press, 1957), p. 365.

[5]Ludwig von Mises, *Omnipotent Government* (New Rochelle, N.Y.: Arlington House, 1969), pp. 72-73.

[6]Hugh Ross, ed., *The Cold War: Containment and Its Critics* (Chicago: Rand McNally, 1963), p. 7.

[7]Winks, *op. cit.*, p. 14.

[8]*Ibid.*

[9]Harry S. Truman, *Memoirs*, II, *Years of Trial and Hope* (Garden City, N.Y.: Doubleday, 1956), 114.

[10]Price, *op. cit.*, p. 39.

[11]See *ibid.*, pp. 121-22.

[12]*Ibid.*, p. 44.

[13]Truman, *op. cit.*, p. 232.

[14]*Ibid.*, p. 237.

[15]Donald B. Cole, *Handbook of American History* (New York: Harcourt, Brace, & World, 1968), p. 287.

[16]Price, *op. cit.*, p. 205.

[17]*Ibid.*, pp. 205-06.

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W. A. Paton

Egalité?– Sheer Illusion!

THE VIEW that equality is a goal which the human race should strive to reach is widely accepted and supported, in one form or another, although this hazy concept has always been found wanting when subjected to careful scrutiny. Perhaps a few comments on the limitations of the egalitarian dream, in some of its current manifestations, are not inappropriate at this time.

To begin with I'll take note, briefly, of two fundamental obstacles to achieving complete equality among individuals or groups, large or small. One is the impossibility of providing each of the several billions of our present population with precisely the same endowment of the natural resources of benefit to man. Mother Earth's bounties are not uniformly distributed over the habitable surface of the globe, and there is literally no practical way by which each of us can be equally endowed with sunshine, rainfall, fertility, timber, mineral resources, and so on. Substantial mitigation of the impact of these differences would be possible in a condition of permanent peace plus expansion of international trade, but to date the human race has failed to move decisively in this direction.

Even more inherent and insurmountable is the variation plainly in evidence in the native qualities of individuals and groups. Diversity is

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a commonplace in nature and we humans are not exempt. Aside from sex, individuals vary in height, weight, eye color, and a host of other physiological characteristics. And each of us arrives on the scene with a separate package of traits, tendencies, and intrinsic talents. Even among individuals with the same parents important variations in physical and mental qualities are not at all unusual.

What our progenitors were like millions of years back is somewhat conjectural, but we do know that today homo sapiens, "the only surviving species of the genus Homo", is not made up of a mass of homogeneous units.

Ignoring Hereditary Influences

I want to pursue a bit further this matter of variation in native aptitudes and abilities. There seems to be a cult today of wishful thinkers who are pushing the fanciful notion that each of us is born with precisely the same potential, that we all start abreast, and that what happens from then on is entirely the result of environment, including how we are treated by our fellow men. This idea is manifestly absurd, even if we rule out those who start life with major congenital mental or physical handicaps. True, the life course of the individual is often greatly influenced by environmental circumstances, but this doesn't mean that hereditary factors are generally of no consequence in shaping our careers.

And what an unimaginably drab world this would be if all individuals were identical in every particular and committed to identical life experiences! We can be thankful that this is not the case and not even a remote possibility. Perhaps the concept of a race in which all members are supermen is not beyond the realm of imagination, but who would want to find himself in such a situation! I might also note here that our complex modern economy, with its intricate network of facilities bringing a marvelous array of products to the ultimate consumer, includes a great range of functions and tasks. We can't all be top executives; somebody must work on the assembly line.

Minimizing Economic Disparity

Right here the equality fan might well interpose a question: Even if we concede that it is not feasible for all individuals to be endowed with precisely the same cross section of climatic conditions and natural resources, and that people will continue to vary in their physical and mental equipment, isn't it desirable to foster programs designed to minimize differences in standard of living and economic power generally?

This is an interesting question

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and deserves attention. To provide a partial answer let's reword the question more concretely: Are current reform and welfare movements and projects—consumer protection legislation, taxation that favors the people with low incomes, subsidized housing for the poor, special assistance to the elderly and those with mental and physical handicaps, and so on—desirable and deserving of support? I believe a negative answer is justified.

There are two ways, as I see it, by which to reduce the disparities in personal incomes, in the amount of economic goods and services at the command of the individual. One is to harass and block the efforts of the hustlers, the go-getters, the front runners, the innovators, until their pace is slowed to that of the less able, the less qualified and talented, the incompetent, the shiftless, the handicapped. The other is to provide an economic and governmental milieu that encourages, stimulates, the more capable and productive individuals, that provides incentives for those among us with the most potential to do their best. Such a society, I submit, is actually the best way, indeed the only way, to reduce the inequalities so galling to our egalitarian friends. In such a society technology advances, output expands, and per capita income rises. The laggards are not damaged. Instead they are given the opportunity to improve their own performances as they are carried along on the fast-moving coat-tails of the inherently superior.

It should hardly be necessary to add that in referring to the able, the talented, the productive, I am not including the destructive, or those who gain by preying on their fellows.

* * *

The socialist road we are now marching on is not the route to increased total productivity and increased per capita standard of living, and if we believe that these are desirable goals we should alter our course, and not dillydally in doing it.* The relatively free, competitive market, not a bewildering array of government agencies, operated by fumbling politicians and bureaucrats, remains the only proven road to widespread economic prosperity.

*There is room for argument as to the basic effects on the human being of an increasing standard of living. Perhaps the real danger to the people of the United States right now is the impact of an amazing upward surge of living standards in the last century on our vigor, our character, our will to accomplish and survive in a dangerous world. See my piece, "Can We Sustain Prosperity?" in the January, 1972 issue of *The Freeman*.

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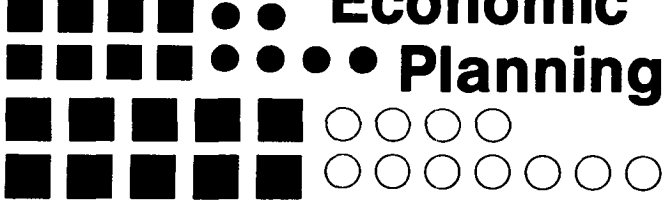
David Kelley

The Bases of Economic Planning



LIBERALS and socialists share a vision of a planned economy. It is a vision of order, extending to economic matters the rational foresight that is the glory of our nature: weighing and ranking our needs by intelligent deliberation, allocating resources with scientific efficiency to satisfy those needs. The concept of economic planning wears a public face of dedication to reason. Behind the face, however, lies a deep-seated philosophical hostility toward reason.

The concept originated with the socialists of the nineteenth century, principally Karl Marx. Marx complained that while man had achieved control over the forces of nature, and bent them to his ends, he was still the pawn of economic forces. The movements of supply and demand determine prices, wages, profits; they determine the investment of capital and the allocation of resources; yet they operate outside anyone's control. No attempt is made, in a capitalist system, to direct these forces to our ends. To allow this, he said, is to abandon the methods we use in controlling nature—it is to abandon reason.

Since these forces arise from voluntary exchanges between individuals, each acting as an independent agent, Marx wanted to eliminate that system. There would be instead only one economic agent: the state, and it would act by consciously deciding the allocation of resources: that is, by economic planning.[1] As his collaborator Engels put it: "In making itself the master of all the means of production to use them in

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accordance with a social plan, society puts an end to the former subjection of men to their own means of production [i.e., to the marketplace]."[2]

A Century of Communism

In the hundred years since Marx and Engels wrote, society *has* "made itself the master of all the means of production"—in the Communist countries. The results have been disastrous. The Soviet Union has the most fertile agricultural resources in the world, yet it can barely feed its own people—and then only because as much as a third of its food comes from the tiny private sector the government allows. Communist East Germany continues to stagnate while its better half in the West, after rejecting economic planning, rose to an unprecedented prosperity. In Europe, the most troubled economies—England, France, Italy—are the most heavily planned.

In this country economic planning became a cause during the Depression, and its presiding spirit was the philosopher John Dewey. Dewey rejected the principle of individual rights that had previously stood in the way of government planning. Indeed, as a pragmatist, he rejected all fixed principles, claiming that we cannot judge a social policy until it is tried. Under this banner, New Deal pragmatists tried planning in various sectors of the economy, with results parallel to those in the totally planned economies.

The airline industry, for example, began as a deliberately planned venture in the 1930s, and remained so for forty years; when it was decontrolled recently, prices fell immediately while profits rose. At the same time, the government began using the power of its own budget to manipulate the money supply, hoping thereby to regulate levels of inflation, unemployment, and investment. The result today is accelerating inflation—with the dollar now worth half what it was ten years ago—combined with high unemployment and falling rates of investment.

Why Planning Fails

It is not difficult to understand why planning fails. A market economy is a system of individuals acting to achieve their purposes by producing and trading with each other; the result is a delicate integration of freedom and order. From countless exchanges between individuals, there emerges a single price for every good or service, reflecting the relative supply and demand for it. This system of prices tells the individual the terms on which he may expect to enjoy the products of others, and the terms they will offer for his, but leaves him free to act on that information.

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The market tells a producer of shirts, for example, that the new polyester fabric will cost him less than cotton; and that consumers can be expected to pay less for shirts made of the first than those made of the second. But it leaves him free to integrate these facts with information he has about his particular context: the tastes of his customers, the reliability of his suppliers, the adaptability of his work-force. And it leaves him free to decide, on the basis of all this information, what he will do: what proportion of each type of shirt he will produce, what new machinery he needs, how many new workers, and so on through all the countless decisions it takes to run a business.

In short, the market tells the individual what he needs to know if he is going to rely on trade with others, but leaves him free to act on that information. His actions, in turn, have their impact on the market, helping to shape the information on which others act. In this way the market automatically integrates the actions of everyone, without sacrificing anyone's freedom. It is indeed one of the wonders of civilization, allowing millions upon millions of individuals to live together peaceably, each one benefiting from the endeavors of countless others whom he in turn benefits, yet each free to pursue his own course.

But government planning, employing such tools as regulations, subsidies, price controls—or in the extreme case nationalization of industry—undercuts the system: it distorts the information the individual receives from his economic environment, and it restricts his freedom to act on the basis of it. On the first count, the clearest example is price controls. By preventing a rise in the price of a good, controls disguise its increasing scarcity, and thereby prevent people from taking the appropriate action: businesses do not invest in further production of the good, and consumers do not economize on their use of the good. Price controls on natural gas, for both reasons, led to the crisis of several years ago, when suddenly there was no gas to be had at any price.

Their Hands Are Tied

On the second count, planning ties the hands of actors in the marketplace, preventing them from acting on the information they do have. A number of biological insecticides, for example, are now both technically and economically feasible, but they may never be produced because potential producers cannot afford the lengthy and expensive process of getting them cleared by Federal regulators.[3] Many of the decaying sections of our cities have the potential to flourish, but the individuals and businesses who could exploit

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that potential cannot get past the roadblocks placed in their way by city planners, through taxes, zoning, government housing projects, and the like.

In this respect, the dark side of planning is commanding. The essence of government planning is to replace the free interaction of the market with the judgment of the planners, backed by the government's power of coercion. In a totally planned economy, no one may act as a producer except by permission of his superiors in the economic bureaucracy. And consumers cannot make their preferences known except through the vague and infrequent sanctions of the ballotbox, or through violent demonstrations, as in Poland.

And for what? Is the loss of freedom on the part of the individual compensated by the greater wisdom of the planners? On the contrary, there is no way to perform by conscious planning the feat which the market performs automatically.

No Basis for Decisions

Consider the extreme case of socialism, in which the government owns all the factors of production. In this case, these factors are not traded freely, so that they do not have prices that reflect their relative value; and as Mises points out this would make it impossible to invest them rationally. If the government wished to build a railroad, for example, it would have no way to decide what materials to use, what proportion of labor and capital is most efficient—or indeed whether the railroad is worth building at all. "Where one cannot express hours of labor, iron, coal, all kinds of building material, machines and other things necessary for the construction and upkeep of the railroad in a common unit it is not possible to make calculations at all."[4]

Why couldn't these calculations be made without prices? Because prices contain an enormous amount of information, too much to be integrated in any other way. The price of each good indicates how valuable it is in relation to all other goods; and each of these valuations is determined by millions of individuals in the marketplace, each acting on detailed information about his own local situation. To replace the price system by conscious planning, the government would need a way to gather and integrate that same information.

In a free market, the information is integrated automatically, without any individual's having to gather it together in one place: the housewife in Chicago may know nothing of the Florida frost, but she adjusts her actions to it when the price of oranges rises. But a planned economy *would* have to gather all that information together in one place, in order to allo-

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cate resources as wisely as the market does. Considering the millions of prices in a modern economy, with the trillions of relations between them, and the masses of information that determine those relations, it is an unthinkable feat.[5]

Thus a planned economy frustrates rational action at every turn. To the extent that an economy is planned, individuals are prevented from doing what they must, and planners are required to do what they cannot. Yet the drive for planning endures, appearing repeatedly in the media like a third-rate film on the late show. As recently as 1975 a new movement for planning was launched: a group of old liberals and new leftists organized an Initiative Committee for National Economic Planning, which enjoyed a brief run in the press; and largely through their efforts a bill for national planning was introduced in the Senate (It did not pass.) Why does the idea persist? It has taken a fearful beating over the years, from economists and from reality, yet it keeps on ticking. Why?

The answer lies in philosophy—specifically in philosophical premises about the nature of reason.

The Mind of the Individual

Reason is an attribute of the individual. Human knowledge is attained by a complex process of observing facts and relating them, making inferences and testing hypotheses. It is a process that occurs only in individual minds, and can be initiated and guided only by an individual's own volition. Much of what we know, to be sure, is learned from other people. But every item of that knowledge was at one time the discovery of an individual mind; and we ourselves, in learning from him, must carry out the rational process of grasping his truth.

Ultimately, therefore, everyone is responsible for his own life, because he is responsible for the use of his tool of survival: his mind. He must form his beliefs and values, and apply them to the circumstances of his life, by his own thinking. He cannot be forced to think, nor can he force others to think for him. There is no knowledge to be had except through active use of his own mind, initiated by choice. There is no *automatic* source of guidance—not from his emotions, not from his friends, not from his favorite columnist.

This is the fundamental reason why the market system works: it allows individuals to cooperate and learn from each other, but leaves each free to act on his own judgment: to do what his nature requires. In particular, it leaves the innovator free to carry his new ideas into practice, without depending on permission from those who do not, or cannot, share his insight.

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But capitalism also prevents anyone from passing off the responsibility for thought onto others. And as Ayn Rand has shown, it is resentment against this fact that lies behind all the attacks on capitalism. The anti-capitalist mentality is at root a "longing for the effortless, irresponsible, automatic consciousness of an animal. [They] dread the necessity, the risk and the responsibility of rational cognition."[6] It is not the effort of working that is resented. Capitalism requires that, but so does every other system, and people work longer and harder in the others. It is the effort, and the responsibility, of thinking for oneself.

Complaints Against Capitalism

This resentment takes many forms, and fuels a myriad of complaints against capitalism. All of them, by attacking the market, help create a climate in which a collectivist system seems attractive. But one such form is especially relevant to the issue of economic planning. It is the idea that thought is a collective activity, in which the individual acts only as a cell in the social organism. Both Dewey and Marx, among other philosophers, espoused this idea, and it is an indispensable basis of their support for economic planning.

Marx was a rabid anti-individualist. His essay "On the Jewish Question" was a bitter attack on the natural rights philosophy of the eighteenth-century political revolutions; the effect of these revolutions, he said, was to create "a world of atomistic, antagonistic individuals"; the individual in a free society is a "partial being," "acting in accordance with his private caprice."[7] The individual, he felt, could find fulfillment only by living for the group, as an integral part of the collective.

What of the independent mind? There is no such thing. Marx claimed that the whole sphere of "consciousness"—ideas, values, principles—is a by-product of the material forces of production: the individual's mind is shaped by the tools he uses and the organization of the workplace. Since these are social factors, "consciousness is, therefore, from the very beginning a social product."[8] Marx and Engels were notoriously reticent about the organization of the socialist society they sought, and the reason is presumably their confidence that once the economy is fully socialized, it will produce individuals whose minds are fully socialized—who think as cells in the organism.

Dewey shared this view in every essential. Like Marx, he believed the individual is justified only by his relation to the group: "Within the flickering inconsequential acts of separate selves dwells a sense of the

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whole which claims and dignifies them."[9] Like Marx, too, he claimed that thought is collective:

> "It thinks" is a truer psychological statement than "I think." . . . The stuff of belief and proposition is not originated by us. It comes to us from others, by education, tradition, and the suggestion of the environment. Our intelligence is bound up, so far as its materials are concerned, with the community life of which we are a part. We know what it communicates to us, and know according to the habits it forms in us. Science is an affair of civilization, not of individual intellect.[10]

Thought, for Dewey, is not an activity of the individual; the latter need not bear, and cannot claim, any responsibility for his ideas; he is merely a conduit passing along the influence of the group. He says the same of the products of thought. "The stationary engine, the locomotive, the dynamo, the motor car, turbine, telegraph, radio and moving picture are not the products of either isolated individuals nor of the particular economic regime called capitalism."[11] The standard of living these machines have made possible is not an achievement of individuals; the machines are "driven by electricity and steam under the direction of a collective technology."[12]

Taken as statements about reality, these views of Marx and Dewey are scarcely intelligible. How can Marx say that ideas result from the forces of production, when the latter are themselves the products of our ideas? How can Dewey say that "It thinks" is a truer psychological statement than "I think," when anyone who is honest is aware introspectively that he has control over what he thinks, and indeed whether he thinks? How can anyone say that technological advances are not the work of individual minds, when the Patent Office keeps records of who those individual minds are?

Escaping Responsibility

But these statements become intelligible once they are seen as the expression of a deep-seated hostility toward human reason, and the responsibility we bear for exercising this faculty by our own choice and effort. To those who would evade the responsibility, they hold out the promise of having one's cake and eating it too: they imply that one can enjoy the products of thought without having to take any responsibility, as an individual, for the process of thinking. To those who are threatened by the sight of independence in others and want power over them, this doctrine offers a justification: it implies that the individual can be forced to play his part in the collective life of society, at the cost of his own autonomy.

In this way, the idea that thought is collective is a link between the ancient hostility toward reason, and

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the concept of economic planning. Few public advocates of planning today explicitly state that thought is collective, or offer it as the basis for planning. But they inherited the concept of planning from philosophers like Marx and Dewey who *did* say these things; and if we examine the idea of planning more closely, it is not hard to see in it the footprints of the philosophic premise.

Consider an editorial statement made by the *New York Times* at the height of the recent planning controversy. "Why is planning considered a good thing for individuals and business but a bad thing for the national economy?"[13] Taken at face value the question is absurd. Planning is a conscious action; individuals can therefore plan their activities, and businesses assign to specific executives the tasks of planning and decision-making; but the national economy is not the product of a single mind. There is no collective mind to do its planning. The argument is a classic example of what logicians call the fallacy of composition: assuming that what is true of the parts is true of the whole. But that is exactly the assumption which the philosophy of Marx and Dewey would allow. They believe there *is* a collective mind to do the economy's planning.

This is why would-be planners ignore the argument that they could not calculate rationally. The argument assumes, rightly of course, that calculation is the activity of a single mind; and the argument is that no single mind could gather all the information necessary for rational calculation. If advocates of planning ignore the argument, it is because the collectivist view of thought allows them to dismiss the premise: no individual will have to do the planning: society will.

Says the Initiative Committee for National Economic Planning: "Above all, planning is a way of looking at economic problems as a whole, providing the information needed to set explicit priorities in the use of resources, and guiding all sectors of the economy toward the attainment of our chosen goals."[14] *Who* will look at economic problems as a whole? To whom will the information be provided? Who will choose the goals?

The Goal Is Power

Some advocates of planning have a perfectly clear idea of who will do these things: *they* will. Nor does it matter to them whether they can calculate rationally as planners, since that is not their goal; their goal is power. Others simply do not want to confront the fact that planning is the act of the individual mind. In either case, the collectivist philosophical theory provides a rationalization. It implies that no

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individual need perform these cognitive tasks of grasping information and setting goals, since cognition is an activity of society as a whole, acting as a single collective mind. That is why advocates of planning ignore the questions we raise, as if they were irrelevant. They envision a network of planning boards, citizens' groups, legislative committees, and so forth; and their philosophic faith permits them to assume, against all experience, that the network will deliberate as one and speak with a single voice.

The same premise is the source of another feature of the argument for planning. Liberals and Socialists typically assume that an economy not planned by the government would be totally unplanned: the choice is between collective planning and chaos. Says the Initiative Committee: "No reliable mechanism in the modern economy relates needs to available manpower, plant and materials. . . . [T]he most striking fact about the way we organize our economic life is that we leave so much to chance."[15]

Endorsed as it was by professional economists, this is an extraordinary statement. The free market exhibits a marked degree of order, as we have seen. Indeed, it is precisely a mechanism for relating needs to available manpower, plant, and materials; and it does this in a highly reliable way. As a result, individuals are enabled to plan their own activities intelligently, taking account of their economic environment as they pursue their individual goals. What could possibly be meant in referring to this system as "chance"?

What is meant is that the needs which the market takes cognizance of are the needs of individuals, as determined by each individual's knowledge of his own context, and expressed in his choices among competing goods. Advocates of planning implicitly deny that this could allow for an orderly economy. Why? Here again the collectivist assumption is apparent. On that assumption, allowing individuals to decide their own needs, and to act freely to satisfy them, is like allowing every brain cell to act on its own, apart from the needs and guidance of the brain as a whole. The result must be chaos. The assumption is that without the collective to set his goals and direct him in the choice of the means, the individual is a rudderless ship, his actions the product of chance.

A Poor Choice

In reality, the choice is between government planning and planning by individuals. It is impossible to have both; a collectivist economy would suppress the individual mind, replacing it with the judgment of the state, enforced by coercion. For

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Two Provinces of Control

PROPERTY RIGHTS have often been described by socialists as "reactionary barriers against the will of the people." Not so. They are barriers against the state, and they protect the people from the abuse of its power. But they are effective barriers only so long as the two masters of men, the free market on the one hand and the government on the other, are kept separate and distinct. These masters must be confined to their own provinces of control.

When there is no free price mechanism to co-ordinate the economy, then dislocation is bound to arise. Depressions—such as that which followed World War I when political considerations controlled a great part of the world's economy—become unavoidable and lead to still further control and further economic dislocation. If this development is allowed to continue, the rule of the economy by the people through the price mechanism comes to an end; their place is taken by the planner under the instructions of the political group in power.

GEORGE WINDER, "Centralized or Multiple Economies"

many would-be planners, this is not an objection; it is exactly what they want. But the premise that thought is collective allows them never to address the issue. It implies that individuals cannot think for themselves; it implies that there is no such thing as the autonomous mind; it implies, therefore, that there is nothing to suppress, hence no objection against economic planning.

Consider, finally the question of innovations—new products and methods of production. Will not these unpredictable events make planning impossible? The Initiative Committee proposed that national planners be given "A mandate to examine major economic trends and work out realistic alternative long-term economic programs for periods of 15 to 25 years. . . ."[16] But no planner, 15 to 25 years ahead of time, could have foreseen the automobile, or the assembly line, or the rise of consumer credit and installment buying. These were innovations created by individual minds, and they altered the face of the economy in ways no one could have predicted.

For the collectivist mind, however, this fact has no reality. Innovations are not the work of individual

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minds, said Dewey, but of "collective technology." Science "is an affair of civilization not of individual intellect." Thus they are confident that all novelty will emerge slowly and anonymously from the group as a whole, growing in minute, piecemeal fashion like a coral bush, in ways that society's collective intelligence will have no trouble anticipating. This philosophical faith prevents the contrary evidence from penetrating.

A Philosophical Matter

The real basis for planning, then, is not economic but philosophical. It is an age-old antipathy toward reason—toward the responsibility it imposes on the individual—expressed through the myth of society's collective mind. The public defenders of planning may not defend the premises of Marx, Dewey and other collectivist philosophers. They may never have heard of the issue. That does not matter. They have accepted the implications of the philosophers' views; they rely on arguments whose implicit premises originated with the philosophers; and they exhibit an incapacity to grasp evidence incompatible with those premises.

The recent movement for planning arose when it did partly because of dislocations the economy experienced in 1974-5, most notably the energy crisis (itself a signal case of the effects of planning). These dislocations have disappeared, and so for the moment has the movement. But as long as its philosophical premises remain unchallenged, it is a safe bet that the next round of economic difficulties will spawn a new movement for planning.

—FOOTNOTES—

[1]Cf. Karl Marx & Friedrich Engels, *The German Ideology*, Part I, pp. 154-55 in *The Marx-Engels Reader* (ed.) Robert C. Tucker (New York: W. W. Norton, 1972).

[2]*Ibid.*, p. 323.

[3]Cf. William Tucker, "Of Mites and Men," *Harper's*, August, 1978.

[4]Ludwig von Mises, "Economic Calculation in The Socialist Commonwealth," in *Collectivist Economic Planning* (ed.) Friedrich von Hayek (London: George Routledge & Sons, 1935), p. 108.

[5]Friedrich von Hayek, "The Use of Knowledge in Society," in *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948).

[6]Ayn Rand, *For The New Intellectual* (New York: New American Library, 1961), p. 15.

[7]Marx, in Tucker, pp. 41, 50.

[8]*Ibid.*, p. 122.

[9]John J. McDermott (ed.), *The Philosophy of John Dewey* (New York: G. P. Putnam's Sons, 1973), p. 723.

[10]*Ibid.*, p. 713.

[11]*Ibid.*, p. 654.

[12]*Ibid.*, p. 610.

[13]*New York Times*, Feb. 23, 1975.

[14]From an official statement by The Committee, *New York Times*, March 16, 1975.

[15]*Ibid.*

[16]*Ibid.*

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Joseph P. Howard

TOWARD A MEANINGFUL DEFENSE OF FREEDOM

IF FREEDOM is worth defending, then it is worthwhile for its defenders to do the very best job possible. Far too often, however, we fail to present our case for freedom completely or accurately. We unintentionally give our audiences a false impression, which makes the case for freedom unpalatable to those uncommitted individuals whom we would most like to influence.

We all realize that an entrepreneur offering a good product on the market will, nevertheless, spend a substantial amount of time, effort and money to properly and attractively package the product. We are all familiar with the research efforts and creative talent used in launching an advertising campaign for a product. It does no good to have a superior product if nobody knows how good it is or if shoppers are repelled by its appearance on the display shelf.

It is a scandal that those who so well understand the rules of the market place for goods and services fail to translate that understanding to the market place of ideas. For the consequences of failure in the market for products, is at worst, a temporary loss of money; failure to sell our philosophy of freedom will result in the permanent loss of our freedom.

When we present our defense of the free market, we leave ourselves open to a charge of advocating extreme individualism, since our total thrust is, properly, concentrated on the action of the individual in society. Unfortunately, we tend to sound quite selfish. Our opponents, those

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who would substitute a coercive society for a free one in the name of the general welfare, will invariably contrast this alleged selfishness with the moral tenets of our Judaeo-Christian tradition, to our disadvantage. We are often faced with the paradoxical situation wherein those who philosophically reject all religion use it as a weapon against those who accept a religious basis for their beliefs.

We should never forget that the foundation of the belief in freedom is that men have a right to be free because God gave them that right. Without this foundation, it is impossible to honestly defend freedom. We do not advocate a free society so that we can go about our business without a concern for the welfare of others; we hold to our philosophy because it is morally right. Atheism is an essential component of the coercivist credo, the one does not exist without the other. When we fail to emphasize this, we do a disservice to our cause. We enter the battle with our best weapons left behind in camp.

Self-Crippling

A common instance of libertarians crippling themselves unnecessarily is in the presentation of the operations of the free market. Most free market defenders devote a substantial amount of space to describing the mechanics of exchange and the environment necessary to support a free market. Usually, there are elaborate descriptions of the ideal market and comparisons of that ideal to the prevailing situation. Great emphasis is generally placed on the structure and institutions of political organization which are necessary to support the author's concept of the ideal market structure. These presentations tend to be very mechanical in content. Their tacit argument in this mechanistic approach is that if we reform our institutions to more closely conform with the ideal market environment, then all will be well. This line of argument is doubly weak.

First, it will not be supported by the facts of history. We have only to examine the conditions in the United States and the United Kingdom to realize that the existence of institutions to promote freedom will not necessarily guarantee the survival of freedom. In both countries, freedom is under assault through those very institutions, such as the independent judiciary and the representative legislatures. Something else is also needed. That something else is the conviction of the citizenry that it will be free.

I am not attacking the utility of constitutional and institutional safeguards to freedom in society. I do attack those presentations which leave one with the impression that it is the institutions which make men

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free in their societies. This is a twisted Rousseauism. The institutions of a free society are, in reality, the results of the action of free men who believe in the need of protecting their freedom. Freedom precedes freedom-supporting institutions. But if freedom does not arise from social institutions, where then is the source of freedom?

Sustaining Institutions

The Declaration of Independence of the United States was written with a belief in freedom and a desire to construct a political order which would help protect that freedom. Human freedom was not expected to result from the institutions to be established; rather, the institutions were expected to flow from the desire to protect pre-existing rights. These rights are God-given and Jefferson began the case for independence by recognizing the fact; and at the conclusion of the Declaration, the signers placed their reliance on the Almighty, the author of the rights they were defending.

In too many defenses of the philosophy of freedom, contemporary advocates place all of their reliance on the mechanical structures of social, political, and economic organization, as if that were protection enough. If the constitutional mechanics were sufficient to assure a free state of free men, how then explain the fact that Benito Mussolini was the prime minister of a constitutional monarchy, while ruling it as an absolute tyrant. Hitler came to power through the constitutional mechanism of the Weimar Republic. The constitution of the USSR is, on the surface, a marvelous document assuring great personal freedom to its subjects. In reality, it is an outstanding example of how substance can be removed while form remains.

In today's mechanistic presentation of the free market, rarely is mention made of reliance on the laws of nature and of nature's God. This omission leaves the debate concentrated on the relative efficiency of the coercive as opposed to the free society. Yet efficiency is not the essential issue. Even were freedom inefficient, it is to be chosen because it is right.

The free market can be likened to an ecosystem, as much as any wetland or forest, and as such, it is a reflection of our Creator's plan in its uninhibited operation. When this premise is removed from our defense, we are no better than our opposition. Both sides are then guilty of deifying man-made devices. The definition of idolatry is the attribution to the man-made that which is proper only to God. The debate is merely between competing systems of idolatry. Small wonder that it is difficult to fire the imaginations of the onlooker to such de-

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bates. People will not joyfully enter an arena full of lions to bear witness to the efficiency of abstract market models; they will, and they have, to bear witness to the Providence of a personal God.

Charity Is Love

Another, related weakness in many presentations on liberty is a total misuse of the concept of charity. In the Judaeo-Christian context, charity is the equivalent of love; the words are interchangeable. However, whenever charity is introduced in libertarian literature, it is often restricted to mean only almsgiving, that is, the provision for the poor and needy. Such imprecision of language can only lead to confusion. Moreover, there is seldom any mention of love as the essential motivating force for the redefined charity. In the absence of love, there is really no reason to provide for those in need. This becomes a telling weakness in our arguments. At best, it allows the audience to infer that the poor and needy are to be aided as a political expedient, to pacify them. Without the concept of love, our discourses leave us looking like hypocrites, and even more seriously, deprive us of the foundation for our advocacy of human freedom. For if we truly love a person, how then, can we enslave him or her? If we have no love in us, why not enslave our fellows when we can?

Freedom cannot be protected by institutions, nor on the ground that restricting it would introduce inefficiencies to our society. Only if we heed the commandment to love our neighbor as ourselves will we really be able to put our heart into the struggle. Lacking this insight, it is too easy to delude ourselves into thinking that we, and only we, are the sources of whatever good fortune we enjoy in this world. The corollary to this line of reasoning will also become part of our thinking: those who are not so well off as we have only themselves to blame.

All of us have at some time or other heard this position incorporated into an otherwise reasonable discussion of freedom. The hearer can only conclude that it is the cost of the social welfare programs and the unworthiness of their recipients that is at issue. The fact that social welfare programs promoted by various levels of government promote such attitudes on the part of the contributors and a corresponding militance and hatred on the part of the beneficiaries is proof that such programs hurt society more than they help. Saint Paul, in his second letter to the Corinthians, gives us the model that we should be using in our discussions.

A famine had arisen throughout the Roman Empire around the year 43 A.D. A collection was made

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among the communities in Greece and Macedonia for the Christian community in Judea. Paul's instructions to the Corinthians is the essence of the proper attitude of giving in freedom. "Each one should give what he has decided in his own mind, not grudgingly or because he is made to, for God loves a cheerful giver." Please note that force, taxation, or any hint of coercion is missing from this instruction. Earlier in the same letter, Paul had indicated the motivation for any giving. "It is not an order that I am giving you; I am just testing the genuineness of your love against the keenness of others."

All proponents of freedom have their philosophical roots in the Judaeo-Christian traditions of our culture. It follows from this that they are concerned with humans as individuals and not as cogs in an inhuman economic machine. However, when we forget our roots and our philosophical beginnings, our arguments and discussions convey just the opposite impression to our audiences. If the philosophy of freedom is to survive and prevail, we must make clear our concern, yes, and our love for our fellow men. We cannot allow our opposition to preempt the stance of morality and concern which is *our* heritage.

IDEAS ON LIBERTY

The Case for Economic Freedom

THE most important part of the case for economic freedom is not its vaunted efficiency as a system for organizing resources, not its dramatic success in promoting economic growth, but rather its consistency with certain fundamental moral principles of life itself. . . .

If economic freedom survives in the years ahead, it will be only because a majority of the people accept its basic morality. . . .

The free market cannot produce the perfect world, but it can create an environment in which each imperfect man may conduct his lifelong search for purpose in his own way, in which each day he may order his life according to his own imperfect vision of his destiny, suffering both the agonies of his errors and the sweet pleasure of his successes. This freedom is what it means to be a man; this is the God-head, if you wish.

BENJAMIN A. ROGGE

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George F. Cahill

WHAT IS FREEDOM?

FREEDOM is the most prized and coveted of all God's blessings. As Americans, you and I are part of only a tiny portion of mankind that has experienced freedom. Its blessings are as precious as the blessing of life itself.

What, then, are the characteristics of freedom?

Granted, freedom is an abstract thing. But let's try to make freedom more easily understandable. As an experiment, let's give all the qualities of freedom to one imaginary person.

Okay, so if freedom is a person, what would he or she be like?

Freedom would be delicate—easily bruised.

Freedom would be fragile—easily destroyed.

Freedom would be elusive—easily lost.

Freedom would be demanding—hard to serve.

That, then, may give you some inkling of what freedom is like.

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Let's draw out our example a little further. If freedom is a person, who are his or her friends and admirers?

Perhaps the poet John Milton put it best. He wrote: "None can love freedom heartily but good men."

When we are good, Freedom will be strong.

When we are self-disciplined, Freedom will be durable.

When we are resourceful, Freedom will be resilient.

When we are courageous, Freedom will be sturdy.

In short, we determine what Freedom shall be like.

Every time we cheat, deceive, falsify, or choose that which is not moral, we put down Freedom. And every time we do something right, honest, moral, decent, positive and uplifting, we make Freedom a little stronger and more secure.

That's quite a responsibility, isn't it? To our credit, we have chosen to shoulder that responsibility for more than 200 years.

The question is: are you willing to do the same?

The foregoing is one of 60 inspirational messages assembled by Mr. Cahill in a 96-page booklet—BIG IDEAS—messages on individual responsibility that parents, grandparents, and all leaders might use to present positive principles to young people.

The book, BIG IDEAS, at $2.00 a copy, may be ordered directly from:

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David Osterfeld

The Bureaucracy Problem

It is commonly held that the unplanned "anarchic" nature of capitalist production necessitates bureaucratic regulation to prevent economic chaos. Thus the prominent Hungarian Marxist, Andras Hegedus, argues that bureaucracy is merely "the by-product of an administrative structure" that separates the workers from the actual management of the economy. Since the owners make the decisions, all others must ultimately take their orders from this small group. Since that would be impracticable in an industrial economy, the problem must be handled by a division of responsibility which in turn entails layers of bureaucracy. The capitalists make the decisions which are then filtered down the bureaucratic pyramid. This means that the workers must wait to be told what to do by their immediate superiors, who in turn must wait for instructions from their superiors, and so on.

It is important to realize that Hegedus believes that these bureaucratic features are a product of capitalism itself, rather than the nature of large-scale production. "Where capitalist property relations prevail," he says, "it is futile to fight against bureaucracy. . . . To change the situation it is necessary first of all to eliminate private ownership of the means of production." Bureaucracy, he continues, was the "inevitable consequence of the development of property relations at a given stage in the division of labor and in economic integration. Consequently, it is also inevitable . . . that at some point there will be no further

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need for an administrative apparatus separated from society, because subjective and objective conditions will be ripe for direct self-administration."

In plain English Hegedus is saying that because capitalism separates the worker from the control of industry, production would be uncoordinated and chaotic were there not some agency for the transmission of knowledge. This is the function performed by bureaucracy under capitalism. Since under socialism the workers will make all of the industrial decisions, there will be no coordination problem in such a society. Bureaucracy will no longer be necessary and will be discarded. But, other than mere appeals to "democratize the administrative apparatus" and calls for a "healthy mobility in all areas of administration," he is vague on just how socialism will accomplish this.[1] Since Hegedus' views, particularly regarding the bureaucratic nature of capitalism, are not uncommon, it is time they be critically examined.

Three Problems of Coordination

Israel Kirzner notes that there are three problems of coordination that must be solved in any socio-economic system: (1) the problem of priorities, i.e., what goods and services should be produced; (2) the problem of efficiency, i.e., what combination of resources used in the production of a given commodity will leave the largest bundle of resources left over for the production of other goods and services; and (3) the problem of distribution, i.e., how to compensate each participant in the system for his contribution to the productive process.[2] The role of bureaucratic management can best be analyzed by seeing how both capitalism and socialism approach these problems as well as how well they can solve them.

I. The Problem of Priorities

Within a market system priorities are set by the consumers' buying and abstention from buying. Entrepreneurs, anxious to maximize their profits, will tend to produce those goods with the greatest discrepancy between price and cost. Since the consumers are willing to pay more for goods they desire most intensely, the prices of these goods, other things being equal, tend to be higher than those of the less intensely desired goods. Thus the goods that the members of society deem most important are the ones that, without the need for any conscious bureaucratic direction, are first and most plentifully produced in a capitalist system.

A common criticism of this type of reasoning is that there are many examples where the market cannot be said to reflect the priorities of the consumers. It is assumed, for exam-

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ple, that bread is more important than diamonds while it is noted that the price of diamonds is much greater than that of bread. The error in this criticism is that individuals are never confronted with a choice between diamonds *in the abstract,* and bread *in the abstract.* Instead, they choose between *individual units* of bread and diamonds.

> The market reflects the priorities of consumers without the need for any bureaucratic direction.

Since under normal conditions the quantity of bread greatly exceeds that of diamonds, the satisfaction or dissatisfaction caused by the addition or loss of any particular unit of bread, i.e., its marginal utility, is relatively low compared with that of any unit of diamonds. Were, by some quirk of fate, the quantity of bread greatly reduced or that of diamonds significantly increased, the marginal utility of the units of bread and diamonds would be altered causing the price of bread to rise and that of diamonds to fall. It can therefore be seen that the market does indeed reflect the priorities of the consumers and does so without the need for any bureaucratic direction. In fact, bureaucracy could only impede consumer satisfaction for, as Kirzner points out, "any non-market obstacles placed in the way of the pricing process thus necessarily interfere with the priority system that consumers have set up".[3]

Since socialism entails the elimination of the market, there is no mechanism by which priorities are established without conscious direction and control. Thus it is precisely socialism that cannot function without a burgeoning bureaucracy. A quick look at the planning process in the Soviet Union will clearly highlight the bureaucratic labyrinth endemic to even a moderately socialist economy.

Planning in the Soviet Union

In order to construct the plan for the coming year the planners must have as much data as possible on the state of the economy for the current year. This job is handled by the Central Statistical Administration, which alone employs several million people. This information is then conveyed to the State Planning Committee, or Gosplan. Priorities for the coming year are established by the Council of Ministers in conjunction with several other political agencies and communicated to Gosplan, which attempts to coordinate all of the priorities as well as balance the output targets for every industry in the economy with its estimate of the inputs required to produce them.

The plan then travels down the

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planning hierarchy going first to the industrial ministries, then to the subministries, and so on down to the individual enterprises. In this way each firm is informed of the output levels that have been set for it, and the plan begins to ascend the planning hierarchy with each enterprise now in a position to calculate for itself the inputs necessary to produce the given level of output.

The entrepreneur is not only in a better position to estimate consumer demand but, just as important, a wrong guess is immediately reflected on the market.

As the plan travels upward, both the input and output levels are adjusted according to a bargaining process between the enterprise manager and the central planners. The former attempts to underestimate his productive capacity and overestimate his resource requirements to make fulfillment of his part of the plan easier, while the latter does just the reverse.

After finally reaching Gosplan the plan is surveyed in its entirety and the necessary corrections and adjustments are made. The plan is then sent back down the planning hierarchy with each enterprise being informed of its final production goals. And beyond this, of course, lie a host of government agencies required to insure compliance with the plan.[4]

Just what is this bureaucracy, which numbers into the tens of millions, able to accomplish? The first thing to notice is that despite the scientific jargon, its plans are in fact only *guesses* about what each individual consumer will want during the coming year. The estimates of the entrepreneur also are guesses; however, there is a crucial difference: his are based on market data while those of the socialist planners, at least under *pure* socialism, are not.

This means that the entrepreneur is not only in a better position to estimate consumer demand but, just as important, a wrong guess is immediately reflected on the market by a decline in sales. Since the loss of revenue prompts quick adjustments, any incorrect guess tends to be self-correcting. But under socialism, the plant manager need not worry about selling his product but only fulfilling his production quota. Consequently, (1) quality tends to suffer since managers try to find the easiest and quickest way to fulfill their quotas, and (2) production continues, regardless of whether anyone wants the products, until the plan is altered by Gosplan.

But if production of unneeded goods takes place in some areas, needs in others must remain unfulfilled. It is not surprising, therefore,

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that the Soviet Union is regularly plagued by gluts of some items and acute shortages of others. When quotas for the shoe and nail industries were set according to quantity, for example, production managers in the nail industry found that it was easiest to meet their quotas by producing only small nails, while those in the shoe industry made only small shoes. This meant gluts of small nails and children's shoes and shortages of large nails and adults' shoes. But setting quotas by weight meant the opposite: gluts of large fat nails and adults' shoes. Similiarly, since dress-makers don't have to sell their products they don't have to worry about style preferences. The result is periodic warehouses full of unwanted dresses. And at another time the Soviet Union found itself in the embarrassing position of having only one size of men's underwear—and that only in blue.[5]

It is not surprising that the quality of goods in the Soviet Union is notoriously low, the standard of living about one-quarter to one-third of that of the U.S., and that many goods are in short supply.

Thus it is not surprising that the quality of consumer goods in the Soviet Union is notoriously low, the average standard of living is about one-quarter to one-third that of the United States, and so many goods are in short supply that one must stand in line three to four hours each day just to get the basic necessities.[6] While capitalism can function with a minimum of bureaucracy, we have seen that socialism, far from eliminating it, requires a host of bureaucratic agencies. These are necessary in order to (1) collect the data for the construction of the plan, (2) formulate the plan, and (3) inspect the plants to insure that the plan is being carried out.

II. The Problem of Efficiency

Turning to production we find the same results. Under capitalism, the problem of the efficient allocation of resources is solved in the same way that the problem of priorities was solved: the price system. To produce their goods, the entrepreneurs must bid for the needed resources. They therefore stand in the same relation to the sellers of resources as the consumers do to the sellers of final goods. Thus prices for the various factors of production tend to reflect the demand for them by the entrepreneurs. Since what the entrepreneur is able to offer is limited by his expected yield on the final sale of his product, the factors of production are thereby channeled into the production of the most intensely desired goods. Those who best serve the consumers earn the greatest profits

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and, hence, can offer the highest bids for the resources they need.

In short, the market is a highly interdependent mechanism that, without any bureaucratic direction, is able to achieve exactly what Hegedus thought impossible: the transmission of knowledge to the relevant individuals. If, for example, steel should become more scarce, either because part of its supply has been depleted or a new use for it opened up, its price would rise. This would both (1) force the users of steel to cut back on the purchases, and (2) encourage the suppliers to increase their production.

> In a free market economy those who best serve the consumers earn the greatest profits and, hence, can offer the highest bids for the resources they need.

Not only are the actions of all market participants automatically coordinated by these price fluctuations, but the individuals involved do not even have to know why prices rise or fall. They need only observe the price fluctuations and act accordingly. As F. A. Hayek states, "The most significant fact about this system is the economy of knowledge with which it operates. . . . The marvel is that without an order being issued, without more than perhaps a handful of people knowing the cause, tens of thousands of people whose identity could not be ascertained by months of investigation, are made to . . . move in the right direction."[7]

It is also important to point out that even within an enterprise bureaucracy is kept to a minimum. First, if a firm becomes bureaucratically top-heavy it will be undersold and, if reforms are not made, put out of business by less bureaucratically structured enterprises. And second, as Ludwig von Mises notes, "There is no need for the general manager to bother about the minor details of each section's management. . . . . The only directive that the general manager gives to the men whom he entrusts with the management of the various sections, departments, and branches is: Make as much profit as possible. And an examination of the accounts shows him how successful or unsuccessful they were in executing the directive."[8]

Another Soviet Dilemma

But in a *pure* socialist economy the entire apparatus of the market would be absent. All decisions regarding the allocation of resources and economic coordination would have to be made manually by the planning board. In an economy like that of the Soviet Union, which has over 200,000 industrial enterprises,

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this means that the number of decisions that the planning board would have to make each year would number into the billions. This already Herculean task would be made infinitely more difficult by the fact that in the absence of market data they would have no basis to guide their decisions. This problem became evident in the *only* attempt to establish a pure socialist, i.e., non-market, economy: The "War Communism" period in the Soviet Union from 1917 to 1921. By 1920, average productivity was only ten percent of the 1914 volume with that of iron ore and cast iron falling to 1.9 and 2.4 percent of their 1914 totals. In the early 1920's "War Communism" was abandoned and since that time production has been guided by means of restricted domestic markets and by coopting the methods determined in the foreign Western markets.

The task of the Soviet planners is greatly simplified by the existence of the limited markets, but the fact that they are so limited means that the economy still operates inefficiently and suffers from two problems inherent in bureaucratic management: incessant bottlenecks and industrial autarky.

Incessant Bottlenecks

Since it is simply impossible for one agency to be able to familiarize itself with every nuance and peculiarity of every plant in the entire economy, much less to be able to plan for every possible contingency for a year in advance, the planners are forced to make decisions based on summary reports. Further, they must establish broad categories of classes which necessarily gloss over countless differences between firms. Consequently, every plan contains numerous imbalances which surface only while the plan is being implemented.

The Soviet economy still operates inefficiently and suffers from two problems inherent in bureaucratic management: incessant bottlenecks and industrial autarky.

Since there is no market, these surpluses and shortages cannot work themselves out automatically but can only be altered by plan adjustments made by Gosplan. Thus, shortage of good A cannot be rectified unless or until so ordered by the planning board. But plan adjustment in one area will have ramifications throughout the economy. To alleviate the shortage of good A, resources will have to be transferred from the production of good B. Since this will reduce the planned-for output of B, the output of those industries dependent upon B will likewise have to be re-

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evaluated, and so on, in ever widening circles.

Empirical evidence bears out the economic theory. Paul Craig Roberts notes that what goes under the pretentious claim of planning in the Soviet Union is merely "the forecasting of a target for a forthcoming few months by adding to the results of the previous months a percentage increase." Yet, even this "plan" is "changed so often that it is not congruous to say that it controls the development of events in the economy." The planning bureaucracy, he goes on to say, simply functions as "supply agents for enterprises in order to avoid free price formation and exchange on the market. . . ." While this appearance of central planning "satisfies the ideology," the "result has been irrational signals for managerial interpretation, and the irrationality of production in the Soviet Union has been the consequence."[9]

Thus the evidence indicates that the perennially disappointing Soviet grain harvests are far more a result of the system than the weather, for even in "peak planting and harvest seasons as many as one third of all machines in a district may be standing idle because there are no spare parts. Central planners are acutely aware of the need for spares . . . yet the management system seems unable to match up parts with machines that need them."[10]

The problem of bottlenecks is nothing new, as indicated by a report of some time ago: "the Byelorussian Tractor Factory, which has 227 suppliers, had its production line stopped 19 times in 1962 because of a lack of rubber parts, 18 times because of ball bearings, and eight times because of transmission components." The same writer notes that "the pattern of breakdowns continued in 1963."[11]

The evidence indicates that the perennially disappointing Soviet grain harvests are far more a result of the system than the weather.

Perhaps the absurd lengths to which attempts at central planning can be carried is illustrated in an incident reported by Joseph Berliner. A plant inspector, with the job of seeing why a plant had fallen behind on its delivery of mining machines, found that the "machines were piled up all over the place." When he asked the manager why he didn't ship them out he was told that according to the plan the machines were to be painted with red paint but the manager only had green and was afraid to alter the plan. Permission was granted to use green, but only after considerable delay since each layer of the bureaucracy was also afraid to authorize a plan

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change on its own and so sent the request to the next highest agency. Meanwhile, the mines had to shut down while the machines piled up in the warehouses.[12]

Industrial Autarky

The problem of bottlenecks is closely connected with that of organizational autarky. Plant managers are rewarded according to whether or not they have fulfilled their production quotas. To avoid becoming a victim of a bottleneck, and thus not fulfilling the quota, the tendency emerged for each industry to control receipt of its own resources by producing them itself. "Each industry," says David Granick, "was quite willing to pay the price of high-cost production in order to achieve independence." In 1951 only 47 percent of all brick production was carried out under the Ministry of the Industry of Construction Materials. And by 1957 116 of the 171 machine-tool plants were outside the appropriate industry, despite the fact that their production costs were in some cases up to 100 percent greater.[13]

To combat this tendency Nikita Khrushchev reorganized the economy in 1957 by setting up 105 Regional Economic Councils to replace the industrial ministries. In the absence of other reforms, however, he merely succeeded in substituting "localism" for "departmentalism," as each economic region endeavored to become self-sufficient. To counter this the economy was further centralized in 1963 but this only increased inefficiency by further rigidifying an already inflexible economy. Unable to find the key to efficient planning, 1965 marked yet another significant step toward a return to a market economy. These reforms not only introduced a limited profit system but also called for "high degree of local autonomy for producers and suppliers. Detailed planning of every important aspect of production would disappear, to be replaced by minimal direct guidance from above."[14]

Marx postulated the withering away of the state. It is at least as significant as it is ironic that the continued shift of the socialist countries from bureaucratic planning to the market—what William Grampp terms the "new directions in the communist economies"—indicates a "withering away" of the sort never envisioned by Marx.[15]

III. The Problem of Distribution

When considering the problem of distribution, we again find that capitalism is the enemy of bureaucracy. Under capitalism, production is for profit. Capital and labor constantly flow to where they can obtain the greatest return. As can be seen, there can be no separation between production and distribution; for

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those individuals who, in the eyes of the consumers, render the greatest services to "society" are precisely the ones who reap the greatest rewards.

In any society where the state controls all the essential facets of the economy there is a natural temptation for those in control of the government to use their political power to obtain economic privileges.

Turning to socialism, it is difficult to say much in theoretical terms about the way in which wealth is distributed since there are a number of conceivable bases for distribution: equality, need, merit, and services rendered to society. It should be obvious, however, that the implementation of any of these would require conscious bureaucratic direction. It should also be pointed out in this context that the attempts to establish strict equality have never been successful and probably never will be. This is so for two reasons.

First, to spur output the Soviet Union, for example, has always had to rely heavily on the bonus system for its plant managers and the piece-rate system for workers. The increasing centrality of the bonus system is indicated by the fact that while in 1934 bonuses equalled about four percent of a manager's salary, today it often reaches one-half, with bonuses for some industries comprising as much as eighty percent of income.[16]

Second, in any society where the state controls all the essential facets of the economy there is a natural temptation for those in control of the government to use their political power to obtain economic privileges. Thus it is not surprising that the 1917 revolution, regardless of intentions, only resulted in the replacement of one privileged elite by another.[17]

One example will illustrate this point. There are a host of "special shops" in the Soviet Union selling everything from food to jewelry. These stores, which are allegedly for the benefit of foreign tourists, have high quality merchandise at below cost prices in order to compensate the tourist for the government's artificially high exchange rate for rubles. However, James Wallace points out that "high-ranking government officials, senior military officials and upper ranks in the Communist Party are all privileged to shop in these stores as a fringe benefit of their jobs." They are therefore able to buy "hard-to-get goods for a fraction of the prices their neighbors pay for often-lower-quality merchandise."[18]

It is a revealing sidelight, and one that should be especially noted by

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those who condemn capitalism for its unequal "distribution" of wealth, that there is greater inequality of wealth in the more socialist countries like the Soviet Union than in the relatively more market-oriented economies such as the United States. This moreover, is not a historical accident but in conformity with economic theory. For under capitalism there is a natural tendency for capitalists to invest in areas with a low wage level, thereby forcing those rates up to a level commensurate with that of other areas doing the same work, while workers in low paying jobs tend to migrate to areas where pay is higher. Similarly, entrepreneurs invest in areas manifesting high profits. But the increased output forces prices and profits in those areas to fall. In short, while capitalism will never eliminate inequality, it does tend to reduce extremes of wealth and poverty.

Conclusion

Under capitalism the price system performs the crucial function of transmitting knowledge throughout the society and thereby eliminates the need for bureaucracy. But precisely because it eliminates the market, bureaucratic management is indispensable for a socialist economy. Furthermore, since there is an inverse relationship between central planning and the market, bureaucratic management is inherently contradictory. Its dilemma can best be summarized, perhaps, in the form of two planning paradoxes:

Paradox One: For central planning to be viable it needs market data to guide its decisions. But the greater the role of the markets the less that of central planning. Conversely, the more extensive the area of central planning the more limited the market data, and hence the more inefficient must be the operation of the economy.

Paradox Two: If the planning board endeavors to maximize consumer satisfaction it merely does manually what the market does automatically. It is then just a wasteful, redundant entity. But if the planning agency plans operations that would not have been undertaken on the market, then that is an indication that the priorities set by the agency are in conflict with those of the consumers. It is clear that, regardless of the course adopted by the agency, the position of the consumers must be worse off than it would have been under a market economy.

—FOOTNOTES—

[1]Andras Hegedus, "Marxist Theories of Leadership and Bureaucracy: A Marxist Analysis," *Political Leadership in Eastern Europe and the Soviet Union,* Ed.: R. B. Farrell (Chicago, 1970), pp. 53-54.

[2]Israel Kirzner, *Market Theory and the Price System* (Princeton, 1963), pp. 36-38.

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[3]*Ibid.*, p. 39.

[4]For a good summary of this process see Herbert Levine, "Input-Output Analysis and Soviet Planning," *American Economic Review* (May, 1962), pp. 128-31.

[5]See William Loucks and William Whitney, *Comparative Economic Systems* (New York, 1973), pp. 302-4; and Marshall Goldman, *The Soviet Economy* (Englewood Cliffs, 1968), pp. 92-4.

[6]Loucks and Whitney, pp. 322-26; and James Wallace, "In Classless Russia 'Some Are More Equal Than Others,'" *U.S. News and World Report* (August 4, 1975), p. 35.

[7]F. A. Hayek, *Individualism and Economic Order* (Chicago, 1972), pp. 86-7.

[8]Ludwig von Mises, *Bureaucracy* (New Rochelle, 1961), p. 33.

[9]Paul Craig Roberts, *Alienation and the Soviet Economy* (Albuquerque, 1971), pp. 78-85.

[10]James Wallace, "Communist System's Toll on Farms," *U.S. News and World Report* (August 18, 1975), pp. 16-7.

[11]C. R. McConnell, "Some Fundamentals of Economic Planning in the Soviet Command Economy," *The Soviet Economy* Ed.: Harry Shaffer (New York, 1968), p. 32.

[12]In David Granick, *The Red Executive* (New York, 1961), pp. 133-34.

[13]*Ibid.*, p. 135. Industrial autarky is, of course, nothing more nor less than a monopoly. It is interesting to note that this has become such a serious problem for many socialist economies that Yugoslavia, for example, has been forced to adopt antitrust laws to deal with it. See William D. Grampp, "New Directions in the Communist Economies," *Business Horizons* (Fall, 1963), p. 34.

[14]J. P. Hardt, *et al.*, "Institutional Stagnation and Changing Economic Strategy in the Soviet Union," *Man, State and Society in the Soviet Union*, Ed.: Joseph Nogee (New York, 1972), p. 183. Also see the special, "Socialism," in *Time* (March 13, 1978), pp. 24-41. See especially p. 26: The socialist economies, it notes, are characterized by "heavy overstaffing (of) every office and factories with workers who seldom can be fired for failing to produce. Bureaucratic controls further cripple efficiency and managers have little leeway for innovations. Consumer goods are still shoddy and chronically scarce. . . . Yugoslavia seems to have the fewest economic problems among Marxist-Leninist states. It also has the least rigidly controlled economy in Eastern Europe."

[15]Grampp, pp. 29-36.

[16]Granick, p. 111.

[17]See Milovan Djilas, *The New Class* (New York, 1968). Also see the interesting comments on the Bolshevik Revolution by a Russian anarcho-syndicalist and contemporary of the Revolution, "M. Sergven," in "The Paths of Revolution," reprinted in *Libertarian Analysis* (Winter, 1970), pp. 9-12.

[18]Wallace, "Classless Russia," p. 35. The recent scandals in the U.S. Government Services Administration—scandals which *Newsweek* referred to as "the biggest money scandal in the history of the Federal government" (September 11, 1978, p. 29)—only further demonstrate how easily bureaucratic planning lends itself to exploitation. Also see the brilliant article on the Washington bureaucracy by Tom Bethell, "The Wealth of Washington," *Harper's* (June, 1978), pp. 41-59. Especially see page 43: "The laws of supply and demand not only do not apply to Washington, they are turned inside out. Problems elsewhere in the country merely contribute to the wealth of Washington. The fuel crisis takes the shape of a new Department of energy, where 19,000 bureaucrats under Dr. James Schlesinger's command will have $10 billion to play with—roughly equal to the total profits of all the oil companies."

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Can Capitalism Survive?

BEN ROGGE, who teaches economics at Wabash, has never fancied himself as a writer. The formal books which he has planned from time to time languish in his desk drawers. He says, with the deprecatory whimsicality that is part of his nature, that he functions best through the spoken word. He is a platform man.

The distinguishing mark of a Rogge speech, however, is that it invariably reads beautifully. The collection of addresses which Ben Rogge has linked together under certain loose topic heads to make a book, *Can Capitalism Survive?* (Liberty Press, 329 pages, $9.00 cloth, $3.50 paperback), proves that the spoken style, when it is enlivened with parenthetical humor, can take on the quality of a good essay.

Rogge's values and beliefs are as firmly set as anybody's, but he does not make the tactical mistake of trying to grab people by their lapels and mesmerize them into a goggle-eyed march to the mourners' bench. He has a feeling for sinners, and he is not chary of admitting his own foibles. He is not what Mencken would have called a wowser. Thus, in discussing the orthodox conservative's demand for a strict enforcement of the anti-marijuana laws, he reflects, with characteristic ruefulness, on what the prohibition mentality might do to deprive him of his "noble and useful gin and tonic."

If Diogenes, in his search for an honest man, had come upon Rogge, he would have called his quest successful. Part of Ben's whimsical honesty resides in his willingness to admit that he frequently concedes himself a five-foot putt at golf.

As is inevitable in any collection of occasional speeches (or essays) the unity of the book must depend more on tone than on structure. The topics, in *Can Capitalism Survive?*, are heterogeneous. There is a marvelous historical essay on what happened at Harmony and New Harmony in Indiana, where Rappites from Wurttemberg in Germany and

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Owenites from England successively tried to found a collectivist Utopia in territory close to Rogge's own Wabash College. There is Rogge's personal attempt to answer the question, "Rogge, what kind of nut are you?" There are appreciations of Adam Smith and Joseph Schumpeter.

No theologian, Rogge tries manfully—and successfully, as I am sure Edmund Opitz would agree—to deal with the question, "Can there be a Christian economics?" Ordinarily Rogge declines to speculate on the tergiversations of American politics, but his commentary on the Goldwater campaign of 1964 is considerably more acute than anything supplied by our professional political pundits. No urbanist, Rogge draws definitive conclusions about the ineffectiveness of city planners by giving the civilized observations of Jane Jacobs's *The Death and Life of Great American Cities* an economic underpinning.

Back on his own ground, Rogge puts the subject of inflation into sharp and despairing perspective. He appreciates the skills of the entrepreneur in several essays, but doesn't expect to get much help from the business community in saving free enterprise. Nor does he think his fellow educators will quickly solve the problem of putting the American college on a sound financial footing.

If the topics are all over the lot, the unifying philosophy is all of a piece. Rogge thinks that non-economic freedoms depend on economic freedom. The failure of the modern liberal to see the connection distresses him, but it does not surprise him. He knows the frailties of humankind, and to expect any easy triumph of logic is simply unrealistic. He knows that it is difficult for a businessman caught up in a great organization to stand out against tariffs and government subsidies. He knows that the private educator cannot afford to go on a full-cost tuition fee basis as long as the tax-supported state universities offer below-cost rates to every student. He supports the economics of Adam Smith at virtually every turn, and he is warmly appreciative of the work of FEE and Leonard Read in keeping the freedom philosophy alive, but he has his moments of pessimism when he thinks Schumpeter may be right in predicting that capitalism will fail not because of any internal weakness but because it has not managed to enlist the loyalty of the intellectuals.

In brief, Rogge is the very opposite of Pollyanna. But he takes it as his duty to keep plugging. The problem is not to organize politically; it is to keep talking about the eternal relevance of certain ideas. Goldwater couldn't win in 1964 because the country was still afflicted with

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statist illusions. Our politics will change when our ideas change, not before. Rogge does not consider that the economics teaching in our colleges is particularly subversive (even our Samuelsons have good words to say about the free market), but it is another matter when it comes to converting the English teachers and the sociologists to the freedom philosophy. The work to be done is endless, but the joy, as Rogge thinks of it, is in the battle. If our civilization fails to save itself, there will be other civilizations to come.

Readers of *The Freeman* will be particularly interested in Rogge's final chapter, titled "The Foundation for Economic Education: Success or Failure?" Rogge gives four separate answers to the question. The answers, in order, are yes, probably no, almost certainly no, and unqualifiedly yes.

Since it is the mission of any organization, at first instance, to survive, FEE has passed the preliminary test. Given the intellectual climate of the past twenty-five years, this is something of a miracle. Whether the sanity that FEE represents can turn the tide of battle is still moot, but its presence is, as Rogge says, "a very present help in time of trouble." He recalls Tolstoy's description of the role played by Prince Bagration in the Battle of Schon Grabern. The Prince's calm presence rallied the troops, who were anxious to "display their courage before him."

A second way to evalute FEE is to consider its chances for survival in the long run. Rogge says the answer here is "probably no." But he would not have its form survive its soul, and he is sure it will be around long enough to be an important center of strength in the cause of freedom.

The third possible interpretation of success as its relates to FEE is whether it promises to turn the tide of battle in the near future. Looking about him, Rogge remains pessimistic. We still have economic lunacy in Washington, and the businessman is more often than not a part of the problem, not a part of the solution. The score, says Rogge, is still Lions, 100; Christians, Zero.

But point three must yield to point four in judging the success or failure of FEE. The real measure of a teacher's success is: Has his teaching induced in others what Aristotle termed "activity of soul"? Rogge answers this question with a thunderous "yes." His own "activity of soul" is a tribute to FEE's teaching.

Can Capitalism Survive? either in cloth at $9.00 or in paperback at $3.50, also is available from: The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York 10533

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